January 17, 2018

Submitted via SASB’s Public Comment Portal at https://sasb.desk.com/customer/widget/emails/new?ticket%5blabels_new%5d=comment%20portal

Nashat Moin
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Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Re: Proposed Revisions to the Provisional Transportation Sustainability Accounting Standards – Airlines and Air Freight & Logistics Sectors

Dear Ms. Moin:

Airlines for America® (A4A) appreciates the opportunity to comment on the Sustainability Accounting Standards Board’s (SASB) “Exposure Drafts” presenting proposed changes to SASB’s Provisional Standards for Airlines and Air Freight & Logistics sectors. A4A is the principal trade and service organization of the U.S. airline industry.1 A4A’s members have a strong environmental record and demonstrated commitment to sustainable aviation growth. For example, emissions from the commercial aviation sector constitute less than two percent of domestic greenhouse gas emissions nationally and have had much slower growth from 1990 levels (5%) compared to the transportation sector overall (17%) and on-road sources in particular (24%).2 Going forward, our members are aggressively pursuing additional emission reduction opportunities and are a part of a global aviation coalition that has committed to 1.5% annual average fuel efficiency improvements through 2020 and carbon neutral growth from 2020 forward, subject to industry and government investments in advanced technology, operations and infrastructure. A4A members also have a remarkable record with regard to the other topics SASB’s standards cover. Notably, our members make safety their number one priority, and as a result, commercial air travel is the safest form of intercity transportation in the United States.

A4A’s members currently report voluntarily on numerous environmental, social, and governance metrics through annual or biennial sustainability reports. These reports are widely disseminated through company


2 See U.S. Environmental Protection Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2014 (April 2016), Table A-115. Moreover, this lower rate of growth is from a much smaller base.
websites and are developed to communicate corporate sustainability performance and goals to a wide variety of interested stakeholders. A4A members engage with stakeholders in determining the appropriate topics for inclusion and have continuously improved the depth and quality of their sustainability reports, which routinely include quantitative data and goals for metrics where feasible.

A4A members also include relevant sustainability information in SEC filings if the company has determined that the specific information is required to be reported by applicable SEC rules and regulations as material to investors making an investment decision. Thus, A4A members already report—and will continue to report—required material information to investors whether related to sustainability or to more traditional financial performance metrics. Accordingly, as we noted in comments on the provisional standards, we question the need for SASB to issue standards specific to the Airlines and Air Freight & Logistics sectors as this may lead to redundant reporting and not necessarily better reporting and could cause confusion for the public and investors.

That said, in light of our understanding that SASB plans to move forward with these standards, A4A provides the following comments on the Exposure Drafts of the standards where they are relevant to A4A members. We have prepared these comments with the understanding that the overriding purpose of the standards is to advise companies on how to include the metrics in their SEC filings. We understand that SASB has encouraged companies to use the standards in other communication materials for investors to promote the utility of standardized communications in a non-SEC setting. We would recommend that if SASB intends to promote these standards both for use in SEC and non-SEC contexts that SASB include two separate guidance documents to companies: one which follows the current format to incorporate the standards’ metrics into SEC filings and a second document which advises companies on using the standards for separate investor-focused communications material. The legal implications of SEC reporting require a certain amount of precision that is otherwise not mandated by other types of investor communications. As such, A4A believes SASB’s standards require more rigorous metrics for inclusion in SEC filings than they otherwise would for non-SEC communications. A4A would be happy to work with SASB in developing a separate guidance document for non-SEC communications for our industry. While A4A has included additional comments based on the changes between the provisional standards released in 2014 and the Exposure Drafts released for this comment period, we also refresh previous comments we have made on certain metrics that were in SASB’s provisional standards but that SASB has thus far declined to adopt; again, with specific reference to SASB’s focus of having companies use these standards and incorporate the SASB metrics into companies’ SEC filings.

I. Comments on Specific Topics and Metrics

a. Environmental Footprint of Fuel Use

   i. Gross global Scope 1 emissions (TR0201-01; TR0202-01)

A4A continues to believe that this metric does not provide decision-useful information to investors. Reporting of Scope 1 emissions in SEC filings would not facilitate useful comparisons within the industry, as emissions will vary significantly according to the size of the airline operations and the large variability in emissions that can occur due to yearly traffic and market share fluctuations. Gross emissions may only be indicative of the relative size of airlines or changes in traffic, therefore without context, reporting of total emissions is likely to mislead investors and invite unfair conclusions from outside observers.

Additionally, approximately 99 percent of Scope 1 emissions for airlines is related to jet fuel burn and therefore carbon dioxide, so there is little value in including hydrofluorocarbons, perfluorocarbons, and

3 U.S. Environmental Protection Agency data confirm that 99 percent of greenhouse gas emissions from jet aircraft is carbon dioxide with the remaining being a nominal amount of (<1%) nitrous oxide emissions. 80 Fed. Reg. 37,758, at 37,787 (July 1, 2015).
sulfur hexafluoride in this metric, especially given the additional burden that would follow from tracking the relevant data. A4A, therefore, recommends that SASB decline to include the metric in the standard all together or, at a minimum, remove these three greenhouse gases from being reported under the metric.

ii. Total fuel consumed, percentage renewable (TR0201-03; TR0202-03)

A4A recommends that this metric be revised to improve clarity to air carriers. As it stands, the metric confuses renewable energy sources and renewable fuel types. First, the metric inconsistently references “biofuel,” “renewable fuel,” and “renewable energy.” TR0201-03.14 and .18 and TR0202-03.16 and .20 use the term “biofuel” when explaining the methodology to calculate fuel consumption in gigajoules; however “biofuel” is not defined in the metric. Rather, the metric defines “renewable fuel,” and that definition is itself quite confusing. Generally, fuel is a material that is combusted to produce heat or power, so the inclusion of geothermal, wind, solar, and hydro as examples of renewable fuel does not make sense. These sources of energy are not fuels to be combusted to produce heat or power. They also have no set conversion to determine their higher heating values and therefore a number in gigajoules, making it impossible to ensure consistency in including them as “fuel consumed” across air carriers reporting this metric.

Geothermal, wind, solar, and hydro more aptly fall under the scope of “renewable energy” referenced in TR0201-03.17 and TR0202-03.19. But at the same time, these sources appear to be excluded from the metric considering the first part of the second bulleted statement at TR0201-03.13 and TR0202-03.15, which states “The scope excludes non-fuel energy sources . . . .” Adding another layer of complication, the second half of this bulleted statement provides examples of non-fuel sources as “purchased electricity and purchased steam.” Is the scope of this metric to exclude only “purchased” energy or does it also exclude energy consumed by sources other than fuel as defined above?

If SASB’s intent is to capture the energy the air carrier is consuming for onsite heat and power production (i.e., energy consumption associated with Scope 1 emissions), A4A suggests SASB separate total fuel consumed into energy consumed by stationary sources and fuel consumed by mobile sources. If SASB’s intent is only to capture fuel consumption as indicated by the metric title, references to non-fuel sources of energy need to be removed to improve clarity.

Regardless of which approach SASB ultimately follows, A4A also strongly urges SASB to redefine “renewable fuel” beyond removing the examples of geothermal, wind, solar, and hydro. A4A is a founding member of the Commercial Aviation Alternative Fuels Initiative® (CAAFI), a consortium of airlines, government, manufacturers, fuel suppliers, universities, airports, and others working to hasten the development and deployment of alternative aviation fuels. A4A is also a principal in the Farm to Fly Initiative, working with the U.S. Department of Agriculture, Boeing, and other stakeholders to align U.S. biofuels agricultural policy with efforts to support advanced alternative aviation fuels. As such, A4A recognizes that several promising alternative aviation fuels are not captured in the current definition of “renewable fuel” because their sources are not “capable of being replenished in a short period of time through ecological cycles.” For example, alternative aviation fuels can be produced from waste industrial gases or municipal solid waste, which are not replenished through ecological cycles at all, but rather through societal consumption. These alternative fuels still make a significant impact in reducing greenhouse gases emissions though. As such, A4A recommends SASB redefine “renewable fuel” to allow for the inclusion of all alternative aviation fuels. In doing so, A4A recommends SASB rely on the


5 Sustainability Accounting Standard, Airlines, at TR0201-03.16; Sustainability Accounting Standard, Air Freight & Logistics, at TR0202-03.17 (emphasis added).
ICAO Committee on Aviation Environmental Protection’s (CAEP) definition for “alternative fuels.” ICAO CAEP defines “alternative fuels” as “any fuel that generates lower carbon emissions than conventional kerosene on a life cycle basis.” Ensuring SASB’s “renewable fuels” definition includes alternative aviation fuels will ensure that airlines and air freight companies are able to correctly capture their efforts to reduce their environmental impact from aircraft operations.

iii. Notional amount of fuel hedged, by maturity date (TR0201-04)

A4A commends SASB for removing this metric from the standard for Airlines. Fuel is the second largest operating expense for the airline industry. Given that reduced fuel use directly translates to greenhouse gas reductions, airlines’ economic and environmental interests in minimizing fuel use are perfectly aligned. As such, airlines currently do and will continue to prioritize fuel efficiency gains regardless of fuel hedging. In addition, as noted in the “Basis for Conclusions” document, this metric would be duplicative of existing disclosures because airlines already disclose the financial impact of fuel hedging in their SEC filings.

iv. Metrics for consideration: percentage of new fleet certified to ICAO carbon standard and aircraft fleet age distribution

The “Basis for Conclusions” document notes that SASB will research, vet, and propose a metric on fleet fuel efficiency for both the Airlines and Air Freight & Logistics standards in the future. Metrics SASB is considering include the percentage of new fleet certified to the new ICAO carbon dioxide certification standard and the aircraft fleet age distribution.

A4A recommends that no single standard be developed to represent fleet fuel efficiency because the efficiency of an airline’s fleet can be misleading. Rather than represent any decision-useful indication of an airline’s sustainability practices, fleet fuel use efficiency varies between operators for other reasons such as type of business model, the airspace in which the airline operates, and the air traffic control patterns at airports at which the airline operates. Secondly, while the ICAO carbon dioxide certification standard is an important development in international law, it would be premature and inaccurate to use it to represent an airline’s fuel efficiency. This certification standard has not yet been adopted under U.S. law, and moreover, even if/when it is adopted, it will only apply to new type designs of aircraft in 2020 and to newly manufactured aircraft starting in 2023. Furthermore, while some aircraft currently on the market are expected to meet the carbon dioxide certification standard, there is no provision under it calling for existing aircraft to be certified to the standard. Consequently, the percentage of new fleet certified to the carbon dioxide certification standard would not likely reflect the actual fleet fuel efficiency.

If there is in fact to be a metric covering fleet fuel use efficiency, A4A highly recommends that SASB conduct extensive technical work to make the metric meaningful. Should SASB decide to proceed with such a metric, A4A would appreciate the opportunity to assist SASB in conducting the necessary work to create a decision-useful metric.

b. Customer Welfare (TA05-11-01)

In its “Basis for Conclusions” document, SASB proposes to add the disclosure topic, “Customer Welfare,” to the Airlines standard. Customer Welfare is defined as “pertaining to an airline’s ability to provide services that are aligned with societal expectations of fairness, equitability, and responsibility.” SASB suggests that one possible metric under this topic is complaints per 100,000 enplanements, a metric available through the DOT for domestic carriers only. A4A recommends that SASB not include this proposed topic in the Airlines standard because there is no need for it and the potential metric noted by SASB is not a reliable measure of airline customer service or its impact on demand, nor does it represent customer satisfaction for foreign carriers.

6 Proposed Changes to Provisional Standards: Basis for Conclusions, Transportation Sector, at p. 27, 33.
First and foremost, the airline industry is not the only customer-facing industry SASB has created standards for, yet it is our understanding that it is the only industry for which SASB has decided to propose a customer welfare metric. If SASB is interested in including a metric on customer welfare to capture certain social governance aspects of companies, it should do so for all customer-facing industries. That said, while spring 2017 had a particularly high-profile customer relations incident for the industry, it was an outlier incident and overall DOT statistics and independent surveys show that performance and satisfaction are strong and improving. It is worth noting that customer satisfaction reached an all-time high in 2017.\(^7\) Adding an additional metric that almost certainly will reflect what are already measured to be high levels of customer satisfaction will only dilute the material focus of the standard overall, making it overly burdensome for companies to report and overly cumbersome for investors to comprehend.

Second, the concept of customer welfare is, at best, vague and subjective and therefore incapable of quantitative measurement that can be compared on an apples-to-apples basis across a variety of business models. For example, a passenger used to flying on a full service airline may consider the service offered by an ultra-low-cost carrier as unfair and irresponsible because the quality of service differs greatly from what she is used to. On the other hand, a regular customer of an ultra-low-cost carrier purchasing a deeply discounted ticket on a full service carrier may feel that her treatment is unfair and inequitable in comparison to the service level accorded full-fare passengers. These are subjective reactions that have no bearing on the quality of service an airline provides.

Third, customer complaints are not necessarily relevant to long-term financial stability as evidenced by the fact that one of the most financially successful airlines, Spirit Airlines, Inc., also has one of the worst DOT complaint records.

Fourth, to the extent customer service and welfare incidents in a given case are material, whether positive or negative, this would be reflected in the airline’s bottom line financial performance and therefore is already incorporated into SEC filings. Furthermore, as noted in the “Basis for Conclusions” document, DOT has exclusive enforcement authority over airlines regarding various consumer protections, including bumping, tarmac delays, flight delays and cancellations, and discrimination and publishes a monthly report detailing individual airline performance for several customer service metrics and comparing their performance. DOT also has the authority to levy fines against airlines in particularly egregious instances of consumer protection violations. As a result, where airlines do not protect consumers’ rights, airlines will bear the financial impact of their decisions, which will in turn be reflected in SEC filings.\(^8\) In the event of a particularly large fine, an airline may determine under SEC rules and guidance that it warrants specific disclosure.

\(^7\) According to the American Customer Satisfaction Index developed at the University of Michigan, every aspect of airline flying measured in the index is better than it was a year ago. Airlines for America, *U.S. Airline Industry Review: Allocating Capital to Benefit Customers, Employees and Investors* at 60, available at [http://airlines.org/dataset/a4a-presentation-industry-review-and-outlook/](http://airlines.org/dataset/a4a-presentation-industry-review-and-outlook/). In addition, according to the J.D. Power 2017 North America Airline Satisfaction Study\(^\text{SM}\), “overall customer satisfaction with airlines has reached its highest level ever, continuing a trend that now stretches five consecutive years.” *Id.* at 61.

\(^8\) Based on engagement with SASB, A4A understands that SASB is concerned there may not be sufficient competition to address some customer welfare issues due to the recent consolidation in the industry. However, despite consolidation the number of competitors per city-pair has increased consistently over the past two decades, and not only are the four largest carriers aggressively competing at each other’s hubs, but smaller carriers have also been quickly expanding into these larger carriers’ hubs. This competition has driven airfares to historical lows. Daniel M. Kasper & Darin Lee, *An Assessment of Competition and Consumer Choice in Today’s U.S. Airline Industry* at 5, 19, 23—24, 28, available at [http://darinlee.net/pdfs/airline_competition.pdf](http://darinlee.net/pdfs/airline_competition.pdf).
Finally, DOT complaints are an inherently unreliable indicator of airlines’ customer welfare. DOT accepts and counts all complaints in its database without any screening as to whether they describe conduct that violates a federal law or regulation; and in many cases, they do not reflect a legitimate customer service issue. Moreover, the number of complaints submitted to DOT against any one airline on an annual basis is statistically insignificant for purposes of identifying a pattern of conduct that could have a material impact on an airline’s sustainability. For example, in 2016, DOT received a total of just 10,833 complaints against the 12 U.S. airlines having at least one percent of domestic scheduled service revenues—against more than 700 million passengers enplaned. The most complaints received by one airline was just 3,600 across all categories logged by DOT, and more than a third of those were in the “flight problems” category (delays, cancellations, connections) having nothing to do with “fairness, equitability or responsibility.” The remaining complaints were spread across 11 other categories. That airline carried more than 144 million passengers in 2016, resulting in 2.49 complaints per 100,000 enplanements, which is hardly a statistically significant number. Based on this, the number of DOT complaints measured on a per-100,000-passenger basis is not a reliable indicator of what is already an inherently subjective topic.

For the reasons set forth above, the logical conclusion is that “Customer Welfare” is not a reasonable sustainability topic for the airline industry, and a metric of DOT complaints per 100,000 passengers is both statistically invalid and an unreliable indicator of an airline’s sustainability. A4A therefore strongly recommends that SASB decline to establish a “Customer Welfare” metric in its Airlines standard and that it avoid using DOT’s statistics on customer complaints should SASB insist on including the disclosure topic. Should SASB remain inclined to address this issue in its guidance, in light of the points above, we would suggest that SASB recommend further narrative explanation about customer welfare issues that may pose material loss exposures rather than creating a specific, questionable metric.

c. Labor Relations/Practices

A4A agrees with SASB’s decision to rename the disclosure topic “Fair Labor Practices” to “Labor Practices” in the Air Freight & Logistics standard.9 The change improves the objectivity of the disclosure topic and removes any implicit bias in its title.

i. Percentage of active workforce covered under collective bargaining agreements, broken down by U.S. and foreign employees (TR0201-05)

While air carriers can readily provide information on the number of employees working in the United States who are covered by collective bargaining agreements (CBAs), A4A takes issue with several aspects of this metric. First, the definition SASB provides for “U.S. employees” is unworkable. SASB defines U.S. employees as “employees that do not need a visa to work in the U.S.” Yet, airlines have many U.S. citizens working overseas who would not need a visa to work in the United States, but they are not employed in the United States. SASB surely did not intend to capture this subset of U.S. employees when crafting this metric. Second, it may be impossible to track the number of foreign employees covered under a CBA and likely does not provide any relevant information to investors. A4A has never seen a headcount report by any air carrier that separates out U.S.-based employees based on visa status. Furthermore, this metric does not appear to be relevant to labor relations in the airlines sector. Foreign nationals are covered by U.S. CBAs and if a strike is lawfully called by a union, both U.S. and non-U.S. citizens working for the airline can lawfully go out on strike. A4A, therefore, recommends that SASB redefine this metric as the percentage of active workforce covered under CBAs without any break down into U.S. versus foreign employees.

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9 Proposed Changes to Provisional Standards: Basis for Conclusions, Transportation Sector, at p. 32.
ii. Percentage of drivers who are classified as independent contractors (TR0202-05)

A4A recommends this metric be removed from the standard for the Air Freight & Logistics sector because it is not reasonably implementable in practice and would result in misleading reporting. As A4A explained in our previous comments, the definition of “independent contractor” in the proposed SASB standard, with variable references to IRS guidance and local laws is unworkable. The term “independent contractor” varies widely across states and is also the subject of current litigation in numerous jurisdictions. Furthermore, federal courts have issued conflicting decisions on the definition of an independent contractor. As such, Air Freight & Logistics carriers (AFLs) would be forced to provide information that is conflicting and arguably contradicted by alternative state laws. Moreover, AFLs often do not necessarily have the requisite information to report on this metric based on full-time equivalent (FTE) work. AFLs may not have information on the number of hours worked by their contracting companies because many contracts are not tied to the number of hours driven. Rather, AFLs may contract with outside companies based on the volume of truckloads delivered. Consequently, the number of FTEs who are independent contractors may not be readily discernible.

Based on the unworkable definition of independent contractor and the likelihood that AFLs do not have statistics based on the number of hours third-party drivers worked, A4A recommends SASB remove this metric from the standard for the Air Freight & Logistics sector.

iii. Amount of legal and regulatory fines and settlements associated with labor law violations (TR0202-06)

A4A recommends SASB remove the amount associated with settlements regarding alleged labor law violations from this metric for several reasons. First, requesting information on the amount of any settlements with plaintiffs may be legally privileged. In addition, gathering information on fines and settlements for larger companies would be very burdensome administratively without necessarily adding value for investors because settlements often reflect litigation cost avoidance rather than culpability. This last fact also makes reporting the amount associated with settlements misleading to investors. Based on these points, A4A recommends SASB remove the amount associated with settlements from this metric.

iv. Number and duration of strikes and lockouts (TR0201-06)

A4A recommends SASB remove this metric from the standard for the Airlines sector, because strikes/lockouts have not posed a material issue for U.S. airlines for the past twenty years and, in any event, if there was a strike/lockout that posed a material loss exposure to a company it would be disclosed. Note that no current A4A member has been struck by their employees since 1997, and that strike lasted a mere 24 minutes. Furthermore, as far as A4A is aware, there has only been one strike against any airline in the past ten years, and that strike only lasted five days. While that strike, against Spirit, occurred when the airline was a private company and therefore did not make disclosures to the SEC, Spirit has subsequently referenced the strike in SEC disclosures in its discussion of current and future negotiations with labor unions. More specifically, Spirit reported in its 2016 10-K filing:

In June 2010, we experienced a five-day strike by our pilots, which caused us to shut down our flight operations. The strike ended as a result of our reaching a tentative agreement under a Return to Work Agreement and a full flight schedule was resumed on June 18, 2010 . . . . If we are unable to reach agreement with any of our unionized work groups in current or future negotiations regarding the terms of their CBAs, we may be subject to work interruptions or stoppages, such as the strike by our pilots in June
2010. A strike or other significant labor dispute with our unionized employees is likely to adversely affect our ability to conduct business.10

Spirit’s 10-K report discussion of its labor relations exposure is similar to what other airlines regularly report in their 10-K filings. As such, including reporting on this metric would be duplicative of existing disclosures and, therefore, should be removed.

In addition to the fact that the number and duration of strikes is not a significant issue for airlines and would be addressed if material, describing “the reason for each work stoppage (as stated by labor), the impact on operations, and any corrective actions taken as a result”11 is incredibly problematic. Requesting air carriers to describe the reason for each work stoppage as stated by labor, calls for management to comment on labor union motives. The union’s and the carrier’s interpretations of why a union called a strike can be radically different. What management regards as excessive wage demands, for example, the union might characterize as industry-leading pay. Air carriers should not be describing the union’s motives, especially in an SEC filing, as that may cause additional legal challenges by unions and create potential liabilities. Moreover, the term “corrective actions” is not part of labor relations terminology. A4A is unaware of the settlement terms for a post-strike agreement ever having been characterized as “corrective actions,” rendering the term meaningless to both carrier management and labor leaders. Based on this information, A4A does not think this metric is likely material, and therefore recommends it be removed.

d. Competitive Behavior

i. Amount of legal and regulatory fines and settlements associated with anti-competitive behavior (TR0201-07)

A4A recommends SASB remove the amount associated with settlements regarding alleged anti-competitive behavior from this metric because requesting information on the amount of any settlements with plaintiffs may be legally privileged. Further, settlement amounts often only reflect litigation cost avoidance rather than culpability, such that it would be misleading to investors to imply that such amounts are reflective of good governance of environmental and social factors.

e. Accidents & Safety Management

i. Description of implementation and outcomes of Safety Management System (TR0201-08; TR0202-07)

A4A recommends SASB remove this metric because it is outdated, overly burdensome, and not likely material to investors. The FAA framework the metric references in footnotes 26 and 30 and which the metric guidance outlines has been superseded by FAA regulations12 that require air carriers to have an FAA-approved Safety Management System (SMS) in place by March 9, 2018.

In addition, SMS is a continuous program and it would be overly burdensome and impractical to ask carriers to list the number of safety risks and hazardous situations that they have identified in their SMS programs. Restating in a disclosure document what the SMS regulations require to be in a carrier’s SMS program as to policy, risk management, assurance, and promotion does nothing more than repeat what 

11 Sustainability Accounting Standard, Air Freight & Logistics, at TR0202-06.
12 14 C.F.R. Pt. 5.
the FAA regulations require. Based on this, A4A recommends SASB remove this metric from the standards for the Airlines and Air Freight & Logistics standards.

Lastly, because the FAA’s Advisory Circular on Flight Operational Quality Assurance is only relevant to SMS, A4A recommends SASB delete its reference to this Circular under “Additional References” under the topic of Accidents & Safety Management.

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Thank you for your consideration of our comments. Please let us know if you have any questions regarding the information and analysis we have provided, and we will be happy to discuss in further detail.

Sincerely,

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