



The Catch-22 of sustainable aviation?

The Paris climate targets, COP26 in Glasgow, IATA's commitment to the goal of Net Zero by 2050, and last but not least the discussions around EU taxonomy are a wake-up call for each and every one of us who takes aircraft finance seriously. We need to take responsibility – and make an IMPACT:

From 2004 to 2019, CO₂ emissions from aviation increased by 2.5% per year. The International Energy Agency (IEA) estimates that to achieve the goal of Net Zero in 2050, as set out in the Paris Climate Agreement and since reaffirmed by IATA, aviation needs to reduce its CO₂ emissions to 210 million tons by 2050, or by 2.4% per year. At the same time, global aviation grew by more than 5.2% annually between 2004 and 2019. If the effective containment of CO₂ emissions does not keep pace with growth in aviation capacity, this discrepancy will be further magnified.

Undoubtedly, aviation must continue to fulfill its fundamental social and economic function in the future. But despite all the technical innovations for producing CO₂-free synthetic fuels or filtering CO₂ out of the atmosphere, aviation will remain dependent on fossil fuels for a long time to come. This makes it all the more important to have a credible and verifiable roadmap for reducing CO₂ emissions from aviation to Net Zero by 2050 at the latest.

IATA estimates that synthetic fuels will be at least twice as expensive as their fossil fuel predecessors, with fuel costs already accounting for about 25% of an airline's overall costs. All these seemingly intractable political, technical and economic obstacles leave no doubt that more focused, overarching and effective strategies are needed for aircraft financing, risk management, and collaboration if the sustainable transformation of aviation is to succeed.

At most, 15% of all airlines currently publish data on their CO₂ emissions. And many of the reports that are available suffer from inconsistent definitions and significant data gaps. In parallel, banks are required to assess and disclose the sustainability of their aviation portfolios and new financing operations in increasing detail, despite the absence of key supporting data.

Making an IMPACT

For all these reasons, a group of about 20 international banks and institutions has taken the initiative, establishing an independent association to promote sustainable aircraft financing. This initiative, called IMPACT (Initiative to **M**easure and **P**romote **A**viation's **C**arbon-free **T**ransition e. V.), intends to develop credible standards to eliminate box ticking and greenwashing, promote data transparency and provide an engine for change for the entire aircraft finance industry worldwide that is independent of vested interests.

To kick off, IMPACT will focus on five projects:

Transition finance: What does sustainability in aviation mean specifically and what criteria must financing instruments such as green finance and sustainability-linked finance meet? Which metrics are needed to underpin the different types of financing? How can compliance with these standards be encouraged and supported by certificates?

Metrics: How can the transparency of airlines' CO₂ emissions be improved? How should metrics such as Scope 1, Scope 2, and especially Scope 3 be defined so that they can be consistently applied, monitored and reported for the entire aviation value chain? What metrics can be used to measure aircraft and engine efficiency, decarbonization effectiveness and the centrally important decoupling of CO₂ emissions trends from capacity growth? How can more targeted KPIs help to prevent greenwashing?

Policies and reports: IMPACT will accompany and support political and corporate discussions with an annual report on the status and progress of decarbonization in aviation. Accordingly, position papers are to be written on current topics that set out, independently of individual interests, which paths are on track and where further action is needed.

Networking: IMPACT seeks to exchange with all companies in the aviation value chain and with regulators, trade unions and scientific institutions. It will promote teaching and research on the topic of sustainability in air transport. IMPACT wants to cooperate with other initiatives in this area and ensure that there is no competition to the detriment of the common cause of climate alignment.

Know-how: How can modern digital knowledge management tools help members of the IMPACT initiative and others to ensure data, scientific studies and other sources of relevant knowledge on the topic of sustainability in aviation are kept as up-to-date, structured and easily accessible as possible?

It matters now

The Paris climate targets are rapidly finding their way into national legislation, and in the context of COP26 in Glasgow, IATA, ICAO, and other aviation bodies committed to Net Zero as a goal. Regulators, the public, science and research, investors and supervisory bodies are calling for strategies, transparency and focused measures. We cannot run the risk of aviation being accused of market failure in actively promoting and embracing sustainability. We cannot wait for others to decide and to act. IMPACT is much more than an idea: We have achieved tangible results on governance issues and have formed working groups.

Driven by conviction and belief, IMPACT will operate using the pro bono contributions of its members – so its organizational structure and membership fees must be very lean. A group of around 20 distinguished financial institutions from around the world has already rallied behind the idea of IMPACT and the group is growing, but still offers the non-recurring opportunity to be a founding signatory and drive a resilient future for aviation. IMPACT is scheduled to be founded as a non-profit association in March 2022.

Please contact us to find out more!

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