United Airlines

US, Transport

Accounting		Climate Assumptions		Audit		Date of analysis: May 6 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in CAMs	Consistency check	Year end: December 2020 Report date: March 1 2021 AGM: May 26 2021
						CA 100+ company, so seen by investors as key to driving global net zero emissions
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	

Summary view:

- A leading airline with acknowledged clear exposures to climate change issues, both physical and transition.
- Despite bold ambitions to be net zero, these do not appear to be reflected in the financials, even though they implicate a number of long-lived liabilities.

Background

The Business

- United is one of the US's leading airlines, operating domestic flights across the country and also globally. It is a member of the Star Alliance, the largest of the world's airline groupings.
- Due to the COVID-19 pandemic, 2020 capacity was reduced by 57% from 2019 levels, passenger numbers fell by 65%, and revenue passenger miles by 70%. Despite significant government support (both grants and loans), this led to a net loss of $7bn.

Approach to climate change

- During the year, United pledged to reduce its GHG emissions to zero by 2050, without relying on carbon offsetting (a significant increase on its 2018 goal of cutting emissions by 50% from a 2005 baseline by 2050). It seeks to deliver this ambition through two key technologies: sustainable aviation fuel and carbon capture and sequestration. It has made limited investments in early stage businesses working on such technologies ($30m in Fulcrum BioEnergy, on sustainable aviation fuel, and an unspecified 'multi-million' sum in 1PointFive, a direct air capture and carbon sequestration business).
- United also highlights the airline industry's CORSIA initiative. CORSIA's central targets are that all growth in flights beyond 2020 (from a pre-pandemic 2019 baseline) should be carbon neutral, and that 2050 GHG emissions from the industry should be half of those in 2005 but these targets rely largely on offsetting emissions (and there are significant doubts about the programme[1]), so this is less ambitious than United's own goals. Nonetheless, United states: "CORSIA is expected to increase operating costs for the Company, depending on a number of factors, including the number of its flights that are subject to CORSIA, the fuel efficiency of the Company's fleet, the Company's purchase and use of CORSIA-eligible sustainable fuels, aviation sector growth, the price of CORSIA-eligible offsets and the applicable baseline year(s) applied to future phases of the program." It is not apparent how these additional costs have been factored into company investment plans.
- United acknowledges risks of significant additional costs arising from the physical impacts of climate change, specifically disruption from increasingly frequent severe weather events.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns

- A US company so subject to US GAAP standards.

[1] See for example *The EU's assessment of the Corsia airline CO2 deal*, Transport & Environment, March 17 2021

- There appears to be no reference to climate change in the notes to the US GAAP financials. It is not apparent that any consideration of climate has been built into the numbers.
- Aircraft, spare engines and parts have estimated useful lives of 25-30 years and are amortised on a straight-line basis to a residual value of 10% of the original. Buildings have lives up to 40 years. All other PP&E have lives only up to 15 years.
- United has significant long-term financial commitments which assume ongoing growth in air travel, including both leases and firm commitments to buy aircraft. It does not appear that climate change issues have been taken into account with regard to these future expenditures. Minimum operating lease payment costs, which appear to be predominantly aircraft-related, amount to some $7.5bn, with just under $4bn of that due after 2025. Aircraft lease terms run for up to 12 years, with the latest expiring in 2032. Furthermore, United has firm commitments to buy 298 aircraft (with options and purchase rights for additional aircraft). 222 of these are due for delivery after 2022, some out to 2030. The total financial commitment for purchases is $24.3bn, with $10.1bn due after 2025.

Consistency with other reporting		Significant concerns

- The company publishes its 10-K separately from other reporting. The proxy statement was produced 6 weeks later, and the company also produces corporate responsibility and environmental reporting.
- The 10-K narrative reporting incorporates the key climate-related undertakings that the company has made. Beyond the CORSIA standards which are explicitly expected to increase operating costs over the next few years, the company has undertaken to reach net zero carbon emissions by 2050, without relying on offsetting (though with a dependence on untested carbon capture and storage technology, and on the scaling up of sustainable aviation fuel production). The narrative reporting also acknowledges existing exposures to physical climate change risks, arising from weather-related disruption.
- The spread of these issues does not seem consistent with the absence of any consideration of climate change within the financial statements and notes.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in CAMs and consistency check

Audit firm: Ernst & Young LLP	Responsible partner: Andrew Joseph Soucheray
Audit standards: PCAOB standards	

Visibility in Critical Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- There are 3 CAMs identified: (i) impairment of China route authorities; (ii) deferred tax; and (iii) frequent flyer co-brand agreement.
- The first two CAMs, and to a lesser extent the third, depend on estimates of future flying activity and profitability, and so are likely to be impacted by climate change and any carbon constraints or pricing that might be imposed. It is thus concerning that there is no appropriate reference to climate change issues in the discussion of these CAMs.

- The references to the use of advice from specialists refer to specialists in valuations, discount rates and brand valuations, not those expert in climate change or CO2 markets.

Consistency check		Significant concerns

- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies that no material inconsistency was identified in the other information within the 2020 10-K.
- The significant implications of carbon constraints for the airline industry, and United's stated ambitions beyond the industry-wide commitment, which are highlighted in the 10-K narrative reporting, do not appear to be reflected in the financials, which include a significant weight of long-term financial commitments.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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