Hospitality and Leisure

Hospitality Directions Europe

Here to stay: sustainability in the travel and leisure sector

In March 2007 United Nations Secretary General Ban Ki-moon told a UN conference in New York "We have to change the way we live, and rethink the way we travel".

The travel and leisure sector must now meet that challenge.

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Here to stay – Sustainability in the travel and leisure sector

When you start seeing cars marketed on the basis of lower CO2 emissions rather than performance or design features, you know a seismic shift in public attitudes is taking place. We talked at some length about climate change in the 2006 edition of *Hospitality Directions*[1], but in the two years since then we have reached and passed a major tipping point. The science of global warming has finally been validated, and governments, businesses and individuals are coming to terms with the scale and speed of the consequences. Last year's Intergovernmental Panel on Climate Change report predicted a rise in global temperatures by 2100 that is likely to be between 1.8 and 4°C, and could be as much as 6.4°. Even at 2° we will see a shrinking of the Greenland ice cap, a significant rise in sea levels, more extreme weather and droughts, and a massive negative impact on plant and animal life. And all of this has enormous economic implications: Nicholas Stern's 2006 report for the UK government equated a temperature rise of 5-6 °C with a 5-10 per cent reduction in global GDP.

New costs – and new opportunities

In the wake of these reports, and international media events like *An Inconvenient Truth and Live Earth*, people around the world are starting to make changes in their personal lifestyles, and this is translating into growing pressure on both governments and businesses to take real action. Issues such as carbon reduction, recycling, and water and energy use, have assumed far greater prominence, not only for the media and consumers, but – crucially – for the financial markets as well. It's not just Socially Responsible Investment funds who are analysing companies' performance in these areas now, but mainstream institutional investors.

At the same time the implications of climate change are rising to the top of the list of issues preoccupying the typical CEO. In PricewaterhouseCoopers' (PwC) latest Annual Global CEO survey[2], published in January 2008, more than a third of the respondents said they were investing significant resources to address the risks and opportunities arising from climate change, and this rose to 56 per cent for CEOs running businesses turning

1 Hospitality Directions, March 2006 issue 13, "Corporate Responsibility in the Hospitality sector: pain or gain?"
2 PricewaterhouseCoopers 11th Annual Global CEO Survey, January 2008, "Compete & Collaborate"

"Climate change has affected our business expectations from both a short- and long-term perspective. For example, new commercial aviation regulations that seek to reduce the emission of greenhouse gases could lead to a readjustment of the supply and demand equation for this means of transport."

Rafael del Pino
Chairman, Ferrovial Group
Response to the PwC Annual Global CEO Survey

over more than $10 billion. And while 39 per cent of respondents were concerned about potential disruptions to their supply chains from extreme weather and other similar events, 28 per cent saw climate change as an opportunity to reduce their costs or generate additional profits from new environmentally-friendly products and services. Another 29 per cent believed that an active commitment to take action on climate change will bring important intangible benefits, either for their brands, their corporate reputation, or their ability to attract the best talent.

It's increasingly clear that as governments try to force the transition to a low carbon economy there will be new regulatory and tax measures that all companies will face, regardless of their sector. Costs will rise as a more realistic price of carbon is imposed through mechanisms like the EU cap and trade scheme, and other resources that have traditionally been either 'free' or too cheap will have to be bought and valued at a market rate. There will have to be drastic cuts in waste and packaging, and in the use of chemicals, water and power.

But as the Stern Review also points out, there won't just be costs but "business opportunities as the markets for low-carbon, high-efficiency goods and services expand." As the PwC CEO survey suggests, the more agile companies and sectors will do this by predicting and meeting new demands, creating new products and services, or simply by turning their ethical and environmental credentials into competitive advantage. In some sectors this is already happening: cars are an obvious example, but look also at the growth in demand for organic and Fairtrade food, at the rise of green energy, or at what Marks & Spencer is doing with its £200m 'Plan A' sustainability programme.

So what does all this mean for the travel and leisure industry? And how can companies in the sector start to make headway on what may seem to be intractable problems?

Air pressure

The first and most obvious issue for the industry is the carbon cost of air travel. There is still no agreement on a global emissions trading scheme for aviation, but in the meantime the EU is proposing to include the industry in the European Emissions Trading Scheme from 2011, and airlines need to start planning for this now. According to *Ready for Take Off*[3], a PwC survey conducted in 2007, most operators are expecting this to result in higher costs, but few believe they will be able to pass those costs through to passengers. And the numbers in question are considerable. An industry-led study by York Aviation in 2007 put the cost of emissions reductions at €45 billion for the decade between 2011–2020, which would in turn cut aviation profits by €40 billion.

3 "Ready for Take-off? – The inclusion of aircraft operators in the EU Emissions Trading Scheme", PricewaterhouseCoopers 2007

Part of the problem here is that the sector has relatively few options that can make a significant difference, at least in the immediate future. The three cited most often by respondents to *Ready for Take Off* were more efficient aircraft, new technological developments in areas like jet fuel, and better use of spare capacity. As Tom Jenkins, executive director of the European Tour Operators Association has said, "What we need is much more enlightened thinking that simultaneously stimulates a reduction in carbon dioxide emissions and an increase in productive innovation. The focus should be on technological advancement and alternative sources of fuel rather than punitive taxation that will destroy the economy."

But technological advances tend to have a very long timescale, if they can be achieved at all: lower emission fuels are being developed, but may not reach the market for 20 years. Additionally, controversy over the relative environmental impacts of biofuels versus traditional fossil fuels means that this may not be the perfect solution it may have seemed. In the long term new and lighter materials could make the biggest difference by reducing aircraft weight, but these are even further off. In the interim many operators will have to rely on making the smaller improvements that can be realized from better load factors, and encouraging carbon-off-setting.

As the box below suggests, more and more airlines are offering their passengers the chance to offset the emissions generated by their flights, but some observers say that the benefit is marginal at best, and does not take into account the crucial fact that emitting CO2 and nitrogen oxide at high altitude causes at least twice as much damage as at ground level. And while the sector's contribution to global carbon emissions is as yet relatively low at around 3 per cent, this figure nearly doubled between 1990 and 2005 and aviation is now Britain's fastest-growing source of CO2 emissions, which may cancel out the hard-won reductions being demanded of other industries.

Flying light

Most of the big airlines now give their passengers the chance to offset the carbon generated on their flight. The trend was set by BA in 2005 and they have now been followed by the likes of Qantas, Virgin, Easyjet, Air France, SAS, Lufthansa and Cathay Pacific.

Other airlines are even more ambitious. In July 2007 KLM Royal Dutch announced plans to achieve CO2-neutral growth by modernizing its fleet, reducing its fuel use, and offsetting four million tonnes of carbon in the next four years through investments in WWF sustainable energy schemes. NetJets, Europe's largest private jet company, has set itself the goal of becoming completely carbon neutral by 2012, and Sir Richard Branson is ploughing all the profits and dividends his group makes from Virgin Holidays, Virgin Atlantic and Virgin Trains into research and investment to develop sustainable sources of energy. That could amount to $3bn over the next 10 years.

Permit to travel?

Whatever happens in the air, climate change will bring other more long-term factors into play for the wider hospitality sector. Changing weather and temperature patterns will make some parts of the world more attractive and others less so; more frequent flooding or drought may threaten destinations that have been popular choices in the past; and pressure will build for more sustainable approaches to water and energy, especially in relation to air-conditioning, swimming pools and laundry. The 2007 American Express Hospitality Monitor found that almost half of the 300 European hotels they surveyed had set targets to reduce energy consumption, but few had done more to implement this other than offering not to wash the towels every day. Some were starting to use energy efficient light-bulbs and more were making the effort to recycle waste, but the overall impression was that relatively little was being done, and a great deal more could be achieved.

The more cynical industry commentators point to the fact that only 7 per cent of passengers have offset their flights so far as evidence that consumers will be slow to change their behaviour, if they do it at all, and as such the costs of improving environmental performance are likely to outweigh the benefits. In a similar vein, recent customer research by Starwood Hotels and Resorts found that over 60 per cent of people are more wasteful of hotel water and electricity because these things are perceived to be 'free'. And despite years of polite discouragement 75 per cent still wanted their towels and sheets changed every day.

But those in the opposite corner can cite recent surveys by the Green Hotel Association, which found that up to 43 million US travellers are concerned about green issues in the hospitality industry, the Travel Foundation, which indicated that only 4 per cent of UK holidaymakers would opt for a five-star hotel rather than a four-star one with a better sustainability performance and Travelocity, which found that nearly 80 per cent of travellers would be willing to pay extra to visit an eco-friendly destination or business. Moreover, 75 per cent of respondents to a Travel Mole survey in 2007 said they would be prepared to offset their travel-related emissions once they understood the impact they were having on the environment. 43 per cent chose even more radical options, such as imposing new carbon taxes on the cost of flying, or opting for more neutral forms of transport. It's no surprise, then that both Virgin Trains and Eurostar are now promoting themselves on the basis that letting the train take the strain is greener and cleaner than going by air, or that VisitBritain is developing a sustainable tourism accreditation scheme.

It may be that consumers really are going to be prepared to buy green holidays as well as green household goods, but an even more immediate commercial threat may come from changes in attitudes to business travel.

A discussion of the company's carbon footprint is now a de facto requirement for any business issuing a Corporate Responsibility (CR) or Sustainability report, and in most cases a significant element of that footprint will be generated by flying. For service sector firms like PwC or the major international banks the proportion will be even higher. As a result most companies say they are trying to make more use of alternatives like video-conferencing, and over time this is bound to have a knock-on effect on lucrative business class services. Many big organisations are also starting to rank the hotels, airlines and trains they use according to their environmental performance, looking for suppliers who are reducing the emissions from their car fleets, developing guides for sustainable meetings, and

promoting sustainability in their supply chains. Much of this is covered in the detailed toolkit produced by the Institute of Travel Management, which includes policy advice and practical guidelines on reducing emissions (see www.itm.org.uk/icarus/).

What may be less obvious as yet could be the impact of moves by leading companies to examine the sustainability credentials of their suppliers. Businesses are now expected to make ethical choices in relation to their procurement, and many have started issuing detailed Corporate Responsibility (CR) questionnaires to suppliers before they will agree to use them (see the box opposite for more on what PwC is doing in this area). The potential double whammy for the travel and leisure sector could be a potential reduction in the absolute volume of business air travel and hotel usage, coupled with clients becoming increasingly scrupulous about the environmental track records of the airlines and hotel chains they choose.

This is also borne out by a survey by the Association of Corporate Travel Executives and corporate travel company KDS in January 2008, which found that almost half the people booking business trips now feel ‘carbon guilt’ about their contribution to global warming. They concluded that there is already “a real desire to reduce the frequency of travel and select ‘greener’ options”.

PwC’s approach to business travel

PwC is not only increasing its use of video conferencing but targeting a 20 per cent reduction in emissions relating to air travel from each individual member of staff.

We also ask all travel suppliers to fill in a questionnaire relating to their environmental management and impacts. This includes information on greenhouse gas emissions, water consumption, and waste and recycling, as well as their policies on noise pollution and air quality, and their approach to managing their supply chain.

As Mark Avery, PwC’s Head of Business Services and former Chairman of the ITM, says, “Few organisations have gone quite as far as PwC has in translating overall emissions reduction targets into individual objectives, but there is certainly increased take-up of the ITM toolkit, which is being supported by accreditation and awards for those prepared to go the extra mile.”

The industry will have to adapt to these pressures, but that process will also throw up opportunities for growth, if businesses have the courage to seize them. So far the sector has been slow to make sustainability a strategic business issue, or capitalise on its commercial potential. Tesco is spending £600m on operational environmental improvements because CEO Terry Leahy believes that "the market is ready" and they can make sustainability "a significant, mainstream driver of consumption." Likewise GE has developed a whole range of 'Ecomagination' products and services, and aims to increase the revenue from them from $700m in 2005 to $20bn by 2010. As the box overpage suggests, ecotourism is thriving, but this is a niche end of the market, and few of the major players have made concerted efforts to develop green brands and services for newly-conscientious travellers. However, this may be about to change.

Signs of change for hotels

One practical new initiative is the new set of 'Going Green' standards published in June 2007 by the International Tourism Partnership, part of the International Business Leaders Forum (see www.tourismpartnership.org). This gives sensible advice on the minimum standards for a sustainable hotel, covering policies and frameworks, staff training and awareness, environmental management, purchasing, people and communities, and destination protection. So far over a dozen major operators have signed up, including Four Seasons, Hilton, Hyatt, InterContinental, Marriott, Taj and Starwood.

Radisson SAS have won many awards for environmental performance, and around 20 of their hotels in Europe have third party environmental accreditation. Starwood, on the other hand, is an early example of a mainstream operator developing its own green brand. The new '1' luxury hotels will be built to the Leadership in Energy and Environmental Design Green Building Rating System, which takes into account human and environmental health, sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality. And each property will also donate 1 per cent of its revenue to local environmental organizations. 15 hotels are planned in the next two years, with the first due to open in Seattle in late 2008. There was the usual press release and PR campaign to accompany the '1' launch but Starwood Capital Group CEO Barry Sternlicht insists that the new brand is "not using eco-friendly jargon simply as a marketing tool. Our intention with '1' is to build hotels and residences that are truly green and minimize their impact on their environment". Most of the US hotels are likely to be new builds, but the first international '1' hotel will a refurbishment of an existing building in Paris. This highlights a recurring problem for hoteliers looking to improve their environmental performance. Constructing new and greener buildings is one thing, but what do you do with older properties that would be expensive and perhaps impractical to upgrade? And when you take into account the resources it requires, even the knock-it-down-and-start-again option raises more issues than it solves.

Another early sign of change last year was IHG's new 'innovation hotel' website (see www.ihgplc.com/innovation/), launched in September. This makes full use of interactive technology to demonstrate how energy conservation, recycling, water conservation, and what they call 'destination conservation' combine to determine a hotel's long-term sustainability. It's a clever idea with real potential; the next challenge for IHG will be to provide users with more information about the action they're taking in each of these areas.

Other recent innovations that could make a long term difference include TUI's decision to provide environmental ratings for all its hotels. The key to success here will be whether these ratings start to affect consumer behaviour, and how much TUI does to improve the hotels at the bottom of the scale.

How green is your holiday?

If you google 'ecotourism' you get over 2.5 million hits, and that's before you even start on 'responsible tourism', 'sustainable' tourism' or 'green tourism'. There are ecotourism resource centres, ecotourism associations, and ecotourism journals, as well as thousands of companies offering trips ranging from kayaking on the Amazon, to working holidays in Africa.

But despite all this activity there's no single definition of ecotourism, and no industry body certifying what is sustainable and what is not. Harold Goodwin, head of the International Centre for Responsible Tourism at the University of Greenwich, has said that the term "ecotourism" no longer has any real value because "people just don't believe it". The Ecotourism Society refers to "responsible travel to natural areas which conserves the environment and improves the welfare of the local people", and points out that a walk in the rainforest is not ecotourism unless it benefits the environment and its people in some tangible way. A genuinely sustainable lodge or hotel will minimise its negative environmental impacts by using measures like solar-powered energy and rainwater harvesting, as well as funding conservation and education, and employing local people.

The world's first 'zero carbon' five-star hotel now being built in Zanzibar will feature solar heating for hot water, natural cooling from channelling the sea breeze, and reed-filtered recycled water for the infinity pools. Other hotels emphasise their social as well as their environmental footprint. The luxury Kasbah Du Toubkal in the Moroccan Atlas Mountains is a joint venture between the Discover travel company and the neighbouring Berber people. The hotel is not only managed by local staff but has helped to build a school for 80 children, and provide the area's first ambulance and driver.

But if one trip to New Zealand generates as much carbon as 60 holidays in Scotland, there's no getting round the fact that travelling the world to wonder at natural landscapes and exotic wildlife causes more damage than staying at home and watching them on TV. Now that people can watch live feeds of endangered species in their own living room through innovations like the World Land Trust's 'Webcam in the Forest', even more of them may decide that the most environmentally-friendly holiday is the one they don't take.

Practical ways forward

Given the complex challenges the sector faces, hospitality businesses need to take a rigorous and strategic approach if they are to fully understand both the risks and opportunities they could confront. PwC has developed a framework to help companies manage this process, which ensures that the right short- and long-term questions are addressed.

The framework looks at the consequences of climate change under four headings: regulation, market dynamics, physical impacts, and reputation:

Regulation Carbon constrained production Compliance costs Participation in carbon markets New product standards Taxes, subsidies and credits Disclosure of climate risks	**Physical impacts** Assessing asset vulnerability Supply chain disruption Workforce disruption Risk management, insurance and adaption costs
Market dynamics Consumer attitudes and demand patterns New technology, products & markets Competitor behaviour and positioning Carbon as a value driver in M&A	**Reputation** Communicating long term vision to investors Engaging customers and employees Defending/enhancing brand value

Source: PwC 2008

The Challenge

Climate change issues are multi-dimensional

What does leadership on the climate change agenda really look like?

Breaking down the impacts of climate change like this can help companies focus on those that are most material for them, and address the key issues that arise in each area. For example, the sort of questions the hospitality sector might ask itself might include:

Regulation

How might new environmental taxes affect your profitability?

Would your business be able to comply with more stringent regulations relating to labour rights in developing markets?

Do you know how new climate change regulation might affect your bottom line?

Market dynamics

What would happen to your business if domestic holidays become more popular, either because people travel less, or because domestic climates become more appealing?

What would be the effect on your margins if air travel once again became too expensive for anyone but the very rich?

Could you cope if consumers started to boycott hotels and airlines with a poor environmental record, or corporates insist on suppliers with sound environmental credentials?

Physical impacts

What happens to destinations that are particularly at risk from extreme weather, like Florida, or rising sea levels, like the Maldives?

What would be the effect on your business if water became an even more scarce resource at some of your destinations?

How many hotels and resorts do you own on vulnerable coastal locations?

Reputation

Will people continue to choose your hotels if they perceive you to be a laggard rather than a leader in environmental performance?

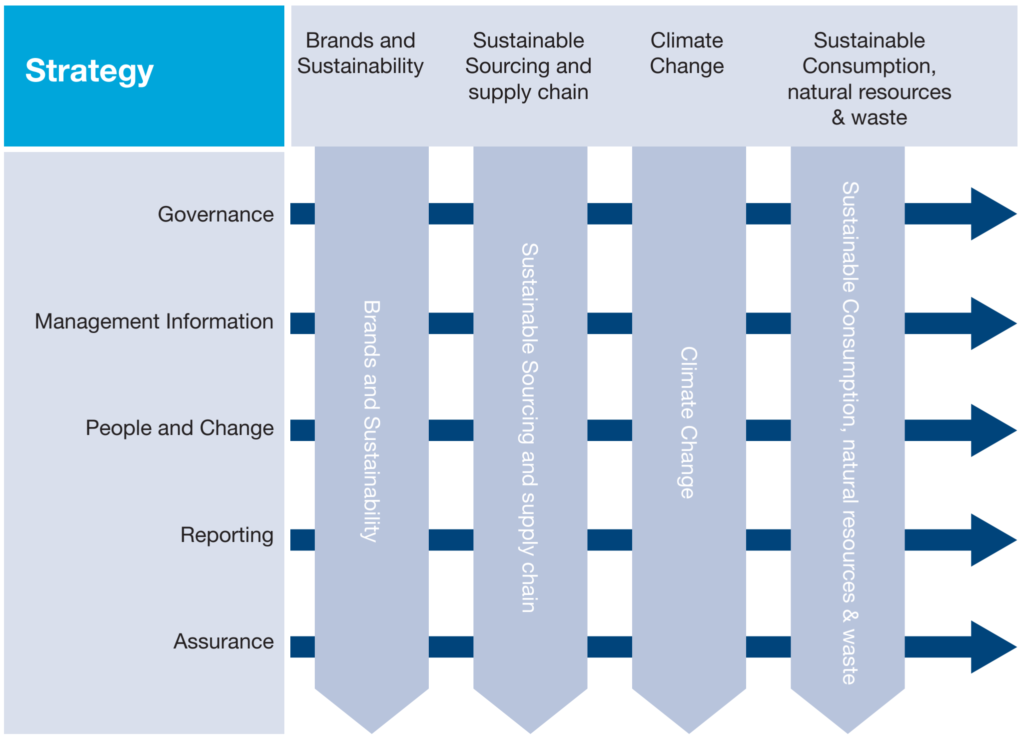
Are there opportunities to develop new green products or services in your sector? What are your competitors doing about this?

Do you have a good public reputation for respecting local cultural norms in developing markets?

Conclusion

As these questions suggest, it's important to understand all the potential ways in which the impact of climate change might play out, and then develop robust plans that can cope with all the different scenarios. Depending on the answers, you may even find that what you need is an entirely different business model. The key to successful management is in recognising that sustainability impacts every aspect of your business and needs to be managed in an integrated manner as illustrated in the following diagram:

Do you need a different business model? Managing sustainability in an integrated manner



Source: PwC 2008

www.pwc.com/uk

Contacts

To discuss any of the issues in this article, please contact:

Erica Hauver

Lead Partner, Sustainability and Climate Change services

+44(0) 20 7212 6888

erica.k.hauver@uk.pwc.com

Caroline Hill

Leader, Sustainability and Climate Change Hospitality and Leisure Team

+44(0) 20 7212 1318

caroline.t.hill@uk.pwc.com

Robert Milburn

UK Hospitality & Leisure Leader

+44(0) 20 7212 4784

robert.j.milburn@uk.pwc.com

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