

## Investment Stewardship Group

# Voting Bulletin: Delta Air Lines, Inc.

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	<b>Delta Air Lines, Inc.</b>
Market	United States
Meeting Date	18 <sup>th</sup> June 2020
Key Resolutions <sup>1</sup>	<b>Item 5:</b> Report on Climate Lobbying <b>Item 6:</b> Report on Political Contributions
Board Recommendation	The company recommends shareholders vote AGAINST these shareholder proposals.
BlackRock Vote	BIS voted AGAINST these proposals as the company is currently working on increasing its disclosure on political contributions and lobbying and has recently committed to becoming a carbon-neutral airline.

<sup>1</sup> Full meeting resolutions can be accessed at: <https://ir.delta.com/resources/default.aspx#annual-meetings>

## Overview

Delta Air Lines, Inc. (Delta) is a major US airline headquartered in Atlanta, Georgia. Delta, and the aviation industry broadly, are increasingly scrutinized for their relatively large carbon intensive footprint. In addition to the heightened focus on the sector's environmental impact broadly, the US airline industry has been severely impacted by COVID-19. As a result, Delta received relief funds via the CARES Act, which includes stipulations and restrictions on employee layoffs, executive compensation, and dividend payments, among other criteria.

BIS has had a history of engagement with the company, and most recently discussed the company's climate risk oversight and shareholder proposals prior to its 2020 annual meeting.

## Aviation emissions and climate reporting

There is an increased focus on US airlines, including Delta, as major contributors of global greenhouse gas (GHG) emissions. Within the US, GHG emissions from transportation account for about 30% of total US greenhouse gas emissions, 10% of which is attributed to air transportation.<sup>2</sup> One major impediment to rapid reduction of carbon emissions from air travel is the lack of a viable alternative fuel engine, such as hydrogen or electric, and mainstream availability of fuel sources that would allow for significant emissions reductions.

In February 2020, in order to focus on climate risk and GHG reductions where possible, Delta became the first US airline to commit to becoming carbon neutral, and has dedicated at least \$1 billion to achieve this over the next ten years.<sup>3</sup> Additionally, Delta is the only US airline to voluntarily cap greenhouse gas emissions at 2012 levels, while continuing to invest in biofuels, increased fleet efficiency, carbon capture technology and renewable power infrastructure at airports.<sup>4</sup>

## Rationale for BlackRock Vote

Based on our analysis and multi-year engagement with the company, BlackRock voted against the following agenda items:

### Item 5: Report on Climate Lobbying (AGAINST)

The company received a non-binding proposal to provide a report "describing if, and how, Delta Air Lines' lobbying activities (direct and through trade associations) align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal)."<sup>5</sup>

BIS considers Delta a leader among US peers with regard to board oversight of climate risk. As previously detailed, the company has publicly committed to carbon neutrality and is working to reduce its GHG emissions footprint via airplane fleet renewal, biofuels, and increased use of grid electricity where possible. Therefore, the company has substantially implemented climate risk mitigation efforts, within current technological constraints, in its overall strategy. While the company faces material impacts to the business in the wake of COVID-19, they intend to continue to focus on their sustainability efforts, including enhancement of their Task

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<sup>2</sup> See <https://www.epa.gov/greenvehicles/fast-facts-transportation-greenhouse-gas-emissions>

<sup>3</sup> See <https://news.delta.com/delta-commits-1-billion-become-first-carbon-neutral-airline-globally>

<sup>4</sup> See previous footnote

<sup>5</sup> See: [https://s2.q4cdn.com/181345880/files/doc\\_downloads/2020/04/Delta-2020-Proxy-Statement.pdf](https://s2.q4cdn.com/181345880/files/doc_downloads/2020/04/Delta-2020-Proxy-Statement.pdf). Importantly, international flights, which account for around 65% of the aviation industry's CO2 emissions, are not covered by the Paris Agreement; instead, they fall under CORSIA, the aviation industry's aspirational goal to make all growth in international flights after 2020 carbon neutral: <https://www.iata.org/en/policy/environment/corsia/>

Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) reporting, which is currently indexed in their latest corporate responsibility report.<sup>6</sup>

Furthermore, Delta's trade association memberships and lobbying activities are currently disclosed with clear rationales. As stated in the company's 2019 Political Contribution and Activities Report, Delta participates in trade organizations including the International Air Transport Association (IATA), the United States Chamber of Commerce, and Airlines for America (A4A).<sup>7</sup> In 2009, the IATA adopted ambitious carbon reduction targets for the airline industry, including a cap on net aviation carbon emissions beginning in 2020 and the reduction of net aviation carbon emissions of 50% by 2050, relative to 2005 levels.<sup>8</sup> Similarly, the A4A's climate commitments include carbon-neutral growth, and an aspirational goal of a 50% reduction in carbon emissions by 2050 relative to 2005 levels.<sup>9</sup>

The company adheres to local, state, and federal statutes regarding lobbying activities. Federal lobbying activities are disclosed quarterly as required under the US Lobbying Disclosure Act, in addition to reports on federal contributions which are filed semi-annually.<sup>10</sup>

In our engagement with the company prior to the 2020 annual meeting, senior management reiterated their focus on increasing disclosure on political contributions and lobbying. We anticipate that this will provide greater clarity into their lobbying and political activities, particularly as it relates to climate risks and opportunities.

Given the progress the company has made in its consideration of and action to mitigate material climate risks, and their commitment to further enhancing their disclosures, we believe that our support for the shareholder proposal is not warranted at this time.

While we acknowledge that the company is headed in the right direction, we believe the company, and aviation industry broadly, will continue to face heightened attention on emissions reduction efforts and climate-related risk inherent in their business model. It will be increasingly important for Delta to articulate its strategy in line with the Paris Agreement and a two-degree scenario. Where we believe companies have failed to consider material, climate-related risk in their long-term outlook, we will consider taking voting action at the 2021 annual meeting.

#### **Item 6: Report on Political Contributions (AGAINST)**

Delta's current disclosure related to political spending<sup>11</sup> is in line with BIS' recommendations, as articulated in [BlackRock Investment Stewardship's perspective on corporate political activities](#), as well as with its industry peers.

We also understand that the company is aggregating shareholder feedback and industry best practices to further enhance its existing disclosure.

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<sup>6</sup> See page 90 and 91 in Delta's 2018 Corporate Responsibility report: [http://www.corporatereport.com/delta/2018/crr/Delta\\_2018\\_CRR.pdf#page=90](http://www.corporatereport.com/delta/2018/crr/Delta_2018_CRR.pdf#page=90)

<sup>7</sup> See Delta's Political Contributions Policy available at: <https://ir.delta.com/governance/default.aspx#governance-documents> and full report at: [https://s2.q4cdn.com/181345880/files/doc\\_downloads/2020/04/Delta-Air-Lines-Political-Contributions-Report-2019-FINAL.pdf](https://s2.q4cdn.com/181345880/files/doc_downloads/2020/04/Delta-Air-Lines-Political-Contributions-Report-2019-FINAL.pdf)

<sup>8</sup> See <https://www.iata.org/en/policy/environment/climate-change/>

<sup>9</sup> See <https://www.airlines.org/a4as-climate-change-commitment/>

<sup>10</sup> See footnote 7. These reports are available on the U.S. House of Representatives and Senate websites in the Public Disclosure databases.

<sup>11</sup> See footnote 7.

Since Delta already meets our baseline requirements on political spending disclosures and is actively aggregating feedback on best practices to further enhance their existing disclosure, we did not support this proposal at the company's 2020 annual meeting.

## **Additional Ballot Items**

### **Item 4: Provide right to act by written consent (AGAINST)**

We believe shareholders should have the ability to call a special meeting or act by written consent. At Delta, shareholders already have the ability to call a special meeting within a reasonable threshold.

### **Item 7: Report on Sexual Harassment Policy (AGAINST)**

The proposal asks for Delta's policies to be reviewed and executive compensation incentives to be aligned with the prevention of workplace sexual harassment.

We believe that the company's current practices, as they relate to workplace sexual harassment policies, are effective and that the proponent failed to lay out a compelling argument as to why the remedies described by the shareholder proposal are warranted at this time. Upon engagement prior to the annual meeting, the company articulated that there was not a particular incident that had occurred or might suggest that the current board's oversight and zero tolerance policy were ineffective.

Based on the company's response, current board oversight, and lack of evidence to suggest that current practices are ineffective, the proposal does not warrant our support.

We will continue to engage with the board and management of Delta on a range of governance and material sustainability issues, including its long-term ambition for carbon neutrality.