

# Costco Wholesale Climate Action Plan

## September 2020

### Introduction

Doing the right thing—for our members, employees, investors, and the health of our global community -- is a driving force for continuous improvement at Costco. At today's rate of growth of global carbon dioxide equivalent (CO<sub>2</sub>e) emissions, the negative effects of climate change (e.g., extreme weather events, ocean acidification, wildfires, sea level rise, resource scarcity, forced migration, racial injustice, economic inequality, etc.) will likely cause the greatest disruption to life in human history. We recognize that proportional action to address Costco's environmental and social impact is both a business imperative and the right thing to do. We are assessing the materiality of United Nations Sustainable Development Goals (SDGs) to Costco's business in order to commit to high-priority, specific, actionable SDGs and metrics as our overarching plan.

Over the next four fiscal years (2021-2024), Costco will be implementing a series of standards, metrics, and goals to build a holistic Environmental, Social and Governance (ESG) strategy. Meaningful climate action is a central pillar in that work. Our plan prioritizes the mitigation of historical CO<sub>2</sub>e emissions relative to a base year. In addition, we will build on our progress to date to develop a formal, multi-year Climate Action Plan focused on specific interventions aimed at addressing the climate impacts attributed to our global operations and supply chains.

### Progress to Date

In recognition of the business imperative to address climate change, in fiscal year 2020 we substantially accelerated efforts to better understand, assess, quantify, and execute on action associated with our Scope 1 (direct emissions within our operations), Scope 2 (indirection emissions from energy usage), and Scope 3 (emissions outside of our operations such as waste and supply chain) CO<sub>2</sub>e footprint and our overarching response to climate change. We initiated a comprehensive review of our internal data and system requirements; operational issues and impacts; global best practices; competitive forces; and regulatory, financial, supply chain, and reputational risk. The results of this detailed review will help us to better understand the implications of climate and sustainability commitments on Costco's business, members, employees, shareholders, suppliers and communities.

### Environmental Compliance, Water, Waste, and Scope 1 and 2 Emissions

We recently completed an internal analysis that shows warehouse energy and refrigeration emissions account for more than 75 percent of our current Scope 1 and 2 carbon emissions. This key information enables us to immediately begin addressing major opportunities for CO<sub>2</sub>e reductions in our operations. We are not delaying front-line action to reduce our global carbon emissions as we build a more comprehensive strategic framework.

We are building on our existing environmental compliance platform through the new Sustainability Technical Assistance Report (STAR) to formalize standards and requirements in five key focus areas below. The STAR is being rolled out in September 2020 across the United

States. By working toward STAR goals, Costco is building the capabilities to track compliance and dynamically monitor resource use at all our warehouses—at an individual and aggregate level. Our aim is to integrate the people, systems, policies, data, and standard operating procedures in support of the following five focus areas:

1. Environmental Compliance – In the United States, all regions have a dedicated Environmental Sustainability and Compliance Manager, as do ancillary business departments. Each international region also has personnel dedicated to supporting our Environmental Sustainability and Compliance goals. We hosted the 2nd Annual Global Environmental Compliance Summit in January 2020 and intend to continue these summits each year. As of September 1, 2020 we have begun to use the STAR to ensure regulatory compliance for our business, starting with the United States.
2. Water – We are building a dashboard to track water usage by warehouse. Our Key Performance Indicator (KPI) for minimizing water use will be gallons consumed per square foot per month. Once rolled out worldwide, our system will measure water consumption and identify water leaks. Accountability for this work will be managed by a new corporate position, the Water Structures and System Supervisor, and included in warehouse management KPIs.
3. Energy – Fully utilizing our energy management system in place in all North American warehouses allows Costco to build a dashboard for tracking kilowatt hours (kWh) of energy consumed by location. Our aggressive efforts at data collection to date have shown that 77% of purchased electricity goes directly to refrigeration and HVAC in our warehouses, which led to the development of our Global Refrigeration & HVAC Plan in July 2020, to improve energy efficiency in these areas. As state and local governments further strengthen regulatory obligations in this key area, we will strive to be in front of government mandates.
4. Waste – To continue progressing toward our global goal of diverting 80% of food and nonfood waste from our warehouses to minimize waste in landfills worldwide, we are developing a waste tracking system with an external vendor. This effort is being supplemented by our larger efforts to support circularity initiatives, such as: (1) our test partnership with AgroThrive, through which organic waste from producing products for Kirkland Signature products, is collected and taken through a progressive digestion process to create fertilizer that is then sold to Costco members; and (2) our new partnership with one of our plastic pallet suppliers, which is using our pharmacy plastic stock bottles to create new plastic pallets.
5. Emissions – We have quantified location-specific Scope 1 emissions; next we are establishing our baseline for Scope 1 and 2. More information is set forth in the 10 Point Climate Action Plan below.

### Scope 3

During the summer of 2020, we explored Scope 3 emissions with select suppliers from three supply chains (produce, textiles, and paper products) to help us: more thoroughly understand supplier engagement opportunities and the current challenges; develop realistic timelines; begin to set priorities and to determine the resources needed; and begin to prioritize and develop a

globally-scalable Scope 3 plan. We also intend to start measuring Scope 3 emissions from our operational waste by December 2023.

## **10-Point Climate Action Plan**

Our intent is to design, develop, and recommend formal climate goals, including targets for the absolute reduction of enterprise-wide CO<sub>2</sub>e emissions from a Fiscal Year 2020 baseline. We also plan to develop facility-level Scope 1 and 2 targets, categorized by operational type (e.g., retail locations, manufacturing facilities and depot and distribution facilities). By December 2022, we intend to outline the specific actions needed to meet these goals and targets.

Our Climate Action Plan integrates the range of global sustainability issues into a coordinated and comprehensive roadmap. The plan builds on our progress to date to identify time-bound ESG commitments and prioritize the capital and operational investments required to deliver on them. In our pursuit of operational level metrics, we will utilize several reporting frameworks to share our results. Over the next four years, we will begin implementing a phased reporting methodology grounded in three commonly accepted frameworks: the United Nations Sustainable Development Goals (SDGs), Sustainability Accounting Standards Board (SASB), and the Task Force on Climate Related Financial Disclosures (TCFD). We will start with the UN SDGs to align all our current progress under a single framework to consider future investment decisions. We will seek to build capacity, change and broaden mindsets, and learn what solutions are most cost-effective through an agile program development approach.

Additional detail on our 10-Point Climate Action Plan is below:

#	Target Actions	Key Milestone(s)	Est. Milestone Date(s)
<b>GLOBAL FRAMEWORK</b>			
1	<b>Assess the materiality of United Nations Sustainable Development Goals (SDGs)</b> to Costco's business, including quantification of material climate risks to the business, and commit to high-priority, specific, and actionable SDGs and metrics.	<ol style="list-style-type: none"> <li>Develop commitment to priority SDG's and metrics</li> <li>Align ESG program to priority SDGs and metrics; measure and report progress</li> </ol>	<ol style="list-style-type: none"> <li>Dec 2021</li> <li>Ongoing</li> </ol>
<b>GLOBAL CONTEXT</b>			
2	<b>Confirm climate change regulatory requirements</b> via a global legal and policy landscape assessment.	Complete global climate change regulatory landscape assessment	Dec 2020
3	<b>Conduct a global review of company, industry, and market climate alliances</b> (including projects, plans, and organizational structures) to benefit from evidence-based, scientifically-valid best practices with an emphasis on diversity and inclusion.	Complete global review of climate alliances and best practices	Dec 2021
<b>CORE CAPABILITIES</b>			
4	<b>Identify the core capabilities (e.g., technology, data, processes, systems, and expertise) we need to build</b> to deliver on our Climate Action Plan.	Complete internal capabilities gap assessment	Dec 2021
<b>BASELINES AND EDUCATION</b>			
5	<b>Assess and validate our FY20 enterprise-wide energy, water, waste, and emissions baseline data sets.*</b> *We will evaluate facility-level data based upon operational use, such as retail warehouse locations, depots and distributions centers, and manufacturing. <i>NOTE: Costco will only commit to absolute reduction targets after we complete this assessment, analyze year-over-year trends, and confirm the global climate change legal and regulatory landscape.</i>	<ol style="list-style-type: none"> <li>Establish a reliable enterprise-wide energy, water, waste and emissions baseline data sets for FY20</li> <li>Publish 2020 data to the CDP</li> </ol>	<ol style="list-style-type: none"> <li>Aug 2021</li> <li>Aug 2021</li> </ol>
6	<b>Develop and implement a plan to address energy and refrigeration</b> as essential parts of our warehouse footprint that have a substantial, outsized impact on our carbon footprint.	<ol style="list-style-type: none"> <li>Energy and Refrigeration Assessment complete</li> <li>Begin Energy and Refrigeration Plan implementation</li> </ol>	<ol style="list-style-type: none"> <li>Dec 2021</li> <li>Jan 2022</li> </ol>
7	<b>Create accountability through incentive pilots and recurring employee communications</b> that build capacity, promote behavior change and foster a culture of continuous learning that accelerate our Plan.	<ol style="list-style-type: none"> <li>Implement US Warehouse ESG Dashboards</li> <li>Implement internal ESG-related recognition pilots</li> <li>Create and implement Climate Action Plan employee education and awareness</li> <li>Develop Global Warehouse ESG Dashboards</li> </ol>	<ol style="list-style-type: none"> <li><b>US ESG Dashboards</b> <ul style="list-style-type: none"> <li>Environmental Compliance: Dec 2021</li> <li>Water: Dec 2021</li> <li>Energy: Dec 2022</li> <li>Waste: Dec 2023</li> <li>Emissions: Dec 2023</li> </ul> </li> <li>Dec 2021</li> <li>Dec 2021</li> <li>Dec 2024</li> </ol>
<b>COMMITMENT</b>			
8	<b>Confirm multi-year Scope 1 and 2 absolute carbon dioxide equivalent emissions reduction commitments</b> and specific actions to meet those goals after analysis of 3-year emission trends (FY19-21).	Publish commitments and action plan	Dec 2022
<b>UNDER REVIEW</b>			
9	<b>Examine Scope 3 best practices, trends, &amp; opportunities</b> to address supply chain emissions, building off existing waste-to-landfill and closed loop product pilot programs.	Ongoing	Ongoing
10	<b>Examine ESG reporting methodologies, best practices, trends, &amp; opportunities</b> with emphasis on Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD).	Ongoing	Ongoing

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