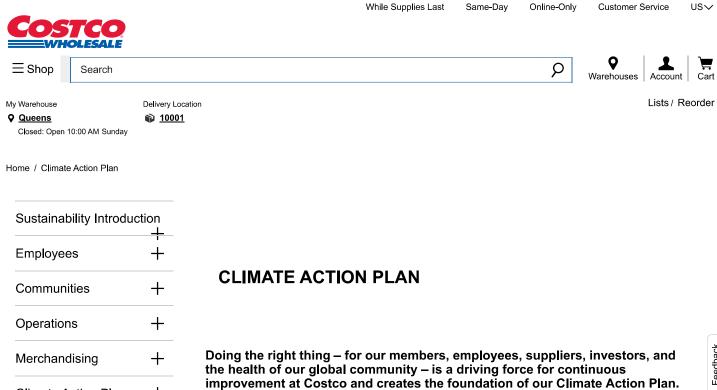
Climate Action Plan

Archive



# INTRODUCTION















We believe our company has a responsibility to embrace the work to build a more resilient, sustainable and equitable world and we will do our part to contribute to the quality of life for those directly or indirectly impacted by our global value chain.

At the current rate of growth of global carbon dioxide equivalent (CO2e) emissions, the negative effects of climate change (e.g extreme weather events, ocean acidification, wildfires, sea level rise, resource scarcity, loss of biodiversity, forced migration, racial injustice, economic inequality, etc.) will likely cause the greatest disruption to life in human history. The Intergovernmental Panel on Climate Change (IPCC) 6th Assessment Report documents the global scientific consensus that global warming will exceed 1.5°C during the 21st century unless deep reductions in carbon dioxide (CO2) and other greenhouse gas emissions occur in the coming decades.

Limiting future climate disruption will require a coordinated global effort by governments, corporations, nonprofits, and individuals. The UN Sustainable Development Goals (SDGs) provide a thoughtful global, "blueprint to achieve a better and more sustainable future for all." Climate Action (SDG 13) is foundational to achieving broader systems changes espoused by the 16 other SDGs. We remain committed to doing our part to address our environmental and social impact in partnership with our global stakeholders because we recognize that our proportional action is both a business imperative and the right thing to do.

In FY20, we published our holistic multi-year 10-Point Climate Action Plan, which focuses on specific interventions aimed at addressing the climate impacts attributed to our global operations and supply chains. We met and exceeded all of our targets for FY21 and they are summarized in the 10-Point Climate Action Plan - Progress Update below.

# **OUR HOLISTIC APPROACH**

As stated above, we are taking a holistic approach to address climate change and it begins with the SDGs. Accordingly, in compliance with Point 1 of the Climate Action Plan, in FY21, we assessed the materiality of the SDGs to our business and have committed to high-priority, specific, actionable SDGs and metrics that serve as our guide as we develop and implement a series of standards, metrics, and goals to build a holistic Environmental, Social and Governance (ESG) strategy.

While we are committed to urgent actions to reduce carbon emissions, we also understand the importance of addressing other systems change issues that impact our business such as human rights, life above land and below water, water conservation, diversity and inclusion and reduction of waste. Meaningful climate action takes into account all of these issues because all of these issues are interconnected.

We respect the Science Based Target (SBT) Initiative's framework and will continue to consider the business implications to setting SBTs in alignment with the new Corporate Net Zero Standard and other sector-based guidance. Because of our obligations to our shareholders, employees, members and the communities we serve, our goals and strategies must be operationally viable. We are seeking to build capacity, change and broaden mindsets, and learn what solutions are most cost-effective through an agile program development approach.

Determining Costco's proportional contribution to emissions reduction requires deep analysis, experimentation, capability building, financial investment, employee education, change management and continuous learning over the coming decades.

The transition to a low-carbon business model that is both sustainable for our planet and represents a just transition for our employees, members and suppliers is a monumental challenge for Costco and all other global retail companies. Our Climate Action Plan focuses on areas of our operations and value chain that have the potential to create outsized impacts on reducing our global CO2e footprint, pathways to conserve water and minimize waste generated from our operations and merchandise supply chains. We are actively exploring opportunities, ideas, pilot projects and sector initiatives for improvements in particularly challenging areas of our Scope 1, 2 and 3 emissions. Key examples include HFCs, concrete, transportation fuels, renewable energy and more.

We continued to build the capabilities to track compliance and dynamically monitor natural resource consumption at our warehouses — at the individual warehouse and aggregate levels. We applied our Sustainability Technical Assistance Review (STAR) framework to help manage warehouse CO2e emissions. STAR formalizes standards and expectations for our warehouse managers across five dimensions: (1) compliance, (2) water, (3) energy, (4) waste, and (5) emissions. Our goal is to introduce STAR to our global supplier network to support our efforts to build a reliable Scope 3 Inventory and establish a multi-year Action Plan next year. In doing so, we will apply our lessons learned from implementing STAR in our warehouses, as well as learnings from our global supplier network, to our efforts to address global Scope 3 emissions.

Over the next three fiscal years (2022-2024), we will determine absolute Scope 1, 2 and 3 carbon dioxide-equivalent (CO2e) emissions reduction targets and detailed action plans taking into consideration: the UN IPCC's 6th Assessment Report; the outcomes of the 26th UN Climate Change Conference of Parties (COP26) in Glasgow, Scotland; SBTi's new Corporate Net Zero Standard; forthcoming SBTi guidance on Forest, Land and Agriculture (FLAG), scheduled to be released in March 2022; Gold Standard's Value Change Initiative; GHG Protocol's existing Scope 3 Calculation Guidance and Scope 3 Evaluator tool in our analysis. We also intend to consult the GHG Protocol's forthcoming guidance on carbon removals accounting, bioenergy accounting and topics related to land-use emissions as we consider our approach to Scope 3 reductions. In parallel, we will pursue water conservation and waste minimization initiatives across our operations and value chain

### SCOPE 1 AND 2 EMISSIONS REDUCTION

In 2021, we developed a five-part Scope 1 and 2 decarbonization strategy that includes the following steps:

- A. **Design and implement** centralized data collection, analysis and reporting solutions to support warehouse-level carbon, water and waste performance management;
- B. Reduce carbon emissions through operationally-viable energy and refrigeration projects;
- C. Purchase renewable energy and Install on-site renewables when operationally feasible; and
- D. **Acquire** high-quality, verified renewable energy certificates (RECs) after we exhaust all other cost-effective reduction pathways.

Our Fiscal Year 2020 Scope 1 and 2 CO2e footprint was verified by SCS Global Services, and we will use this baseline to set absolute reduction targets and measure our future actions.

Two categories collectively represent over 75% of our 2020 baseline Scope 1 and 2 emissions:

- Scope 1: Hydrofluorocarbons (i.e., HFCs) and other gases from our refrigeration units in our warehouses; and
- Scope 2: Purchased electricity that powers our corporate offices and warehouses.

Est. Milestone Date(s)

As of January 2022, our new Scope 1 and 2 reduction commitments are as follows:

- Scope 1: accelerate the phase-out of HFCs and increase our investment in refrigeration retrofits to reduce refrigerant emission Global Warming Potential (GWP) by 30% by 2030 as compared to our 2020 baseline.
- Scope 2: increase purchased renewable electricity in our global operations from 15.8% in 2021 to 30% by 2025; 60% by 2030; and 100% in global operations by 2035.

Between these two actions we are committing to an annual 2% per year reduction target for global Scope 1 and 2 CO2e emissions. Should we achieve this target we estimate we can reduce cumulative Scope 1 and 2 CO2e emission 20% by 2030 and 45% by 2035 from a 2020 base year.

We will disclose the remainder of our Scope 1 and 2 decarbonization strategy in our December 2022 Climate Action Plan update.

Successful implementation of this decarbonization strategy depends upon many factors, some of which are beyond our control. Examples include, but are not limited to, changes in the international and national policy and regulatory landscape, permitting requirements, the availability of refrigerant equipment and low-Global Warming Potential (GWP) refrigerant alternatives, the availability of qualified refrigerant and HVAC service providers, requisite supply of renewable energy, COVID-19 Pandemic-related socio-economic and public health risks, as well as the direct and indirect impact of global climate change on our operations and global value chain.

## SCOPE 3 EMISSIONS REDUCTION

We have estimated Scope 3 emissions from the Greenhouse Gas Protocol-defined category: "Waste Generated from Operations" and disclosed it in the Update below and on the Waste Minimization page.

We will estimate Scope 3 emissions from the GHG Protocol "Purchased Goods and Services", which represents the majority of our Scope 3 emissions, and disclose a Scope 3 Action plan by the end of December 2022.

# 10-POINT CLIMATE ACTION PLAN - UPDATED

Other 2021 accomplishments include adoption of the Sustainability Accounting Standards Board (SASB) framework for "Multiline and Specialty Retailers & Distributors" and "Food Retailers and Distributors", and establishment of a cross-cutting ESG Advisory Council to advise on our ongoing efforts.

The below chart provides a detailed summary of our progress to date.

### **GLOBAL FRAMEWORK**

Key Milestone(s)

1	Assess the materiality of United Nations	1. Develop commitment to	1. Dec 2021
	Sustainable Development Goals (SDGs) to	priority SDG's and metrics	2. Ongoing
	Costco's business, including quantification of	2. Align ESG program to	
	material climate risks to the business, and	priority SDGs and metrics;	
	commit to high-priority, specific, and	measure and report	
	actionable SDGs and metrics.	progress	

# STATUS: Step 1 of this work is COMPLETED while Step 2 is ON TRACK.

**Progress Update**: Costco assessed the materiality of the SDGs to create a framework for prioritizing our Climate Action Plan. The SDGs are a set of 17 globally-accepted 2030 goals and targets that balance economic, social and environmental dimensions of sustainable development. Our work in 2021 included the quantification of material climate risks and opportunities and the identification of materially-relevant 2030 SDGs and targets. Costco identified 7 priority UN SDGs:

- Clean Water and Sanitation (6);
- Decent Work and Economic Growth (8);
- Reduced Inequalities (10);
- Responsible Consumption and Production (12);
- Climate Action (13);
- Life Below Water (14); and,
- Life on Land (15).

**Target Actions** 

Learn More - See our Sustainable Development Goals (SDGS) on our Introduction page.

# **GLOBAL CONTEXT**

# Target Actions Key Milestone(s) Est. Milestone Date(s)

Confirm climate change regulatory Complete global climate Dec 2020 requirements via a global legal and policy change regulatory landscape assessment. landscape assessment STATUS: This work is ON GOING, as we recognize the need for ongoing policy and regulatory analysis given the clear acceleration of government-related climate action across the geographies in which we operate. Progress Update: We completed an evaluation of climate-related policy and regulatory requirements and trends in geographic locations where Costco has a physical footprint in 2021 including a review of hydrofluorocarbon (HFC) policies and are evaluating the implications to our business. From this work we created a geographic-specific climate policy risk framework to inform our approach to emerging non-financial public disclosures and climate-related regulatory requirements. Climate policy risk scores were assigned to each geographic location based on potential indirect and direct impacts of current and pending legislation on our business. Dec 2021

Conduct a global review of company, industry, and market climate alliances (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

STATUS: This work is COMPLETE.

Progress Update: Costco initiated a review of global climate action partnerships and alliances in order to identify and learn from evidence-based, scientifically valid best practices. This work included profiling more than one hundred global climate alliances and partnerships, with assessment criteria based on alignment with Costco's ESG strategy and the potential impact of the partnership and/or alliance.

### **CORE CAPABILITIES**

#### **Target Actions** Key Milestone(s) Est. Milestone Date(s)

	4	Identify the core capabilities (e.g.,	Complete internal	Dec 2021
ı		technology, data, processes, systems,	capabilities gap	
ı		and expertise) we need to build to deliver	assessment	
ı		on our Climate Action Plan.		

STATUS: The initial work is COMPLETE and will be ONGOING.

Progress Update: Costco is continually evaluating its core capabilities to deliver on its Climate Action Plan (e.g., technology, data, process, systems, and expertise). We determined areas where we need assistance and in response, we have retained outside expertise and/or hired new personnel in 2021.

#### **BASELINES AND EDUCATION**

#### **Target Actions** Key Milestone(s) Est. Milestone Date(s)

5	Assess and validate our FY20 enterprise-wide energy, water, waste, and emissions baseline data sets.  We will evaluate facility-level data based upon operational use, such as retail warehouse locations, depots and distributions centers, and manufacturing.  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.	1. Establish a reliable enterprise-wide energy, water, waste and emissions baseline data sets for FY20 2. Publish 2020 data to the CDP	1. Aug 2021 2. Aug 2021
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STATUS: The work is COMPLETE and while we did not meet our Aug 2021 milestones, we verified our FY2020 Scope 1 and 2 baselines in September 2021 and submitted the data to CDP.

Progress Update: Our FY2020 enterprise Scope 1 and 2 CO2e emissions baseline was verified by third party SCS Global in September 2021. We published our emissions data to CDP in September 2021. We have estimated our FY2020 enterprise-wide energy, water and waste baselines. We will use these baselines to set absolute reduction targets and measure our future actions to reduce our emissions, waste, water and energy consumption.

Develop and implement a plan to address energy and refrigeration as essential parts of our warehouse footprint that have a substantial, outsized impact on our carbon footprint.

1. Energy and Refrigeration Assessment complete 2. Jan 2022
2. Begin Energy and Refrigeration Plan implementation

STATUS: The work is ON TRACK to meet our December 2021 and January 2022 milestones.

**Progress Update:** We have a multi-faceted plan to address energy and emissions that continues to expand as we learn more and as new governmental regulations are implemented. To date this plan includes:

- Conversion of refrigeration systems to CO2
- Review of our cooling and heating systems with an approach to integrate them with our refrigeration systems for optimal performance
- Piloting various systems to detect refrigerant leaks
- · Location level collection of refrigerant data
- Purchase of renewable energy and/or installation of solar energy systems where feasible
- SOPs and employee trainings to address refrigeration maintenance and energy consumption
- 1. US ESG Create accountability through incentive 1. Implement US pilots and recurring employee Warehouse ESG **Dashboards** Dashboards Environmental communications that build capacity, promote behavior change and foster a 2. Implement internal ESG-Compliance: Dec 2021 culture of continuous learning that accelerate related recognition pilots • Water: **Dec 2021** our Plan. 3. Create and implement • Energy: **Dec 2022** Climate Action Plan • Waste: Dec 2023 employee education and • Emissions: Dec 2023 2. Dec 2021 awareness 4. Develop Global 3. Dec 2021 Warehouse ESG 4. Dec 2024 Dashboards

STATUS: The work is ON TRACK to meet our December 2021 milestones.

**Progress Update:** We believe one of the best ways to meet our Climate Action Plan goals and reduce our absolute emissions and water usage is to determine our total emissions and water usage at the location level. Therefore we have spent the last year creating dashboards which will give our locations accurate location level data. To date, we have (1) created and launched the environmental compliance dashboard that tracks a location's compliance with legal regulations and company policies and (2) created and are currently piloting the water dashboard.

In addition, we have created the STAR (Sustainability Technical Assistance Review) system that will award a star to each location that meets the requirements for each of our 5 areas of focus (environmental compliance and reduction of water, energy, waste and emissions).

We also have begun to share success stories throughout the company that highlight reductions of the STAR programs as a way to learn from each other. We have created job aids, SOPs, posters, newsletters and numerous educational training programs.

**Learn More** - See our <u>Energy & Refrigeration</u> page, <u>Water Minimization</u> page and our <u>Waste Minimization</u> page.

# COMMITMENT

#	Target Actions	Key Milestone(s)	Est. Milestone Date(s)
8	Confirm multi-year Scope 1 and 2 absolute carbon dioxide equivalent emissions reduction commitments and specific actions to meet those goals after analysis of 3-year emission trends (FY19-21).	Publish commitments and action plan	Dec 2022

STATUS: The work is ON TRACK to meet our December 2022 milestones.

**Progress Update:** We verified our Scope 1 and 2 carbon dioxide-equivalent (CO2e) baselines for the FY2020 year in September 2021. As of January 2022, our Scope 1 and 2 reduction commitments are as follows:

Scope 1: accelerate the phase-out of HFCs and increase our investment in refrigeration retrofits. Our target is reductions in refrigerant emission Global Warming Potential (GWP) 30 percent by 2030 from a 2020 base year;

Scope 2: increase purchased renewable electricity in our global operations from 15.8 percent in 2021 to 30 percent by 2025; 60 percent by 2030; and 100 percent in our global operations by 2035.

Between these two actions we are committing to an annual 2 percent per year reduction target for global Scope 1 and 2 CO2e emissions. Should we achieve this target we estimate we can reduce cumulative Scope 1 and 2 CO2e emission 20 percent by 2030 and 45 percent by 2035 from a 2020 base year.

We will publicly disclose additional information concerning our Scope 1 and 2 CO2e reduction targets by December 2022.

Furthermore, we intend to:

- Monitor evolving GHG Protocol and Science Based Target Initiative (SBTi) guidance, including the Corporate Net Zero Standard launched on October 28, 2021.
- · Calculate our global water usage and evaluate water conservation strategies across our operations
- Learn from leading organizations and standards-setting bodies about methods to meaningfully and
  proportionally reduce our climate impact in the coming decades; and,
- Continue to educate our employees on the business imperative of addressing climate action.

#### **UNDER REVIEW**

#	Target Actions	Key Milestone(s)	Est. Milestone Date(s)	
9	Examine Scope 3 best practices, trends, & opportunities to address supply chain emissions, building off existing waste-to-landfill and closed loop product pilot programs	2021 (NEW): Publish estimated Scope 3 emissions inventories for Purchased Goods and Services and Scope 3 Action Plan	2021 (NEW): Dec 2022	

**STATUS:** This work exceeded the original milestones and is **ON TRACK** with the disclosure of Scope 3 emissions for Waste from Operations and the publication of new milestones and dates as referenced above.

**Progress Update:** We are taking action to better understand the scope and scale of our Scope 3 Indirect emissions footprint, which remains outside direct control of our Operations. In FY21, we developed FY2020 baseline estimate for "Waste Generated from Operations" for all reporting Costco locations (147,138 mtCO2e) based upon the total tonnage to landfill and total tonnage diverted using the DEFRA protocol.

We are developing an initial Scope 3 inventory for "Purchased Goods and Services" and an approach to characterize other Scope 3 categories.

The Scope 3 inventory will include both Kirkland Signature and non-Kirkland Signature brands.

We intend to begin calculating our global water usage and evaluate water conservation strategies across our operations.

We will continue to refer to the UN IPCC's 6th Assessment Report; the outcomes of the 26th UN Climate Change Conference of Parties (COP26) in Glasgow, Scotland; SBTi's new Corporate Net Zero Standard; the forthcoming SBTi guidance on Forest, Land and Agriculture (FLAG), scheduled to be released in March 2022; Gold Standard's Value Change Initiative; and GHG Protocol's existing Scope 3 Calculation Guidance and Scope 3 Evaluator tool.

10 Examine ESG reporting methodologies, best practices, trends, & opportunities with emphasis on Sustainability Accounting Standards Board (SASB) and Task Force on Climate-related Financial Disclosures (TCFD).

2020: Ongoing 2021 (NEW): Adopt SASB framework and report a subset of initial key metrics 2020: Ongoing 2021 (NEW): Dec 21 **STATUS:** This work exceeded the original milestones and is **ON TRACK**, with the publication of new milestones and dates as referenced above.

**Progress Update:** We identified the Sustainability Accounting Standards Board (SASB) framework for "Multiline and Specialty Retailers & Distributors" and "Food Retailers and Distributors" as the two SASB industries most relevant to our business. A cross-functional team reviewed these SASB metrics and selected those that were relevant to our operations. With the assistance of third-party consultants, we conducted a data quality risk-assessment of these selected SASB metrics. Based upon that assessment, we identified a subset of SASB metrics for 2021 reporting for our U.S. operations.

In accordance with the guidance of the Task Force on Climate-related Financial Disclosures (TCFD), we conducted an initial global warming scenario analysis in 2021 and will extend our public disclosures in alignment with the TCFD recommendations in our 2022 Sustainability Commitment. Furthermore, we established an executive-level ESG Advisory Committee in August 2021 to support the enterprise governance of our ESG program portfolio including oversight of our Climate Action Plan implementation. In 2021, the Board approved a new Executive Bonus Plan, which includes quantitative performance metrics concerning diversity equity and inclusion, resource consumption, and other emissions and environmental-related areas, and contemplated that emissions reductions will be a qualitative factor in discretionary environmental and social bonuses.

Learn More - SASB in Introduction

# **CURRENT CO2e EMISSIONS TRACKING**

As we roll out our Climate Action Plan, we will continue, as appropriate and until stated otherwise, to report our emissions and participate in the <u>CDP</u>, established by the GHG Protocol Corporate Accounting and Reporting Standard. Costco Wholesale reports Scope 1 and Scope 2 emissions to align with the Intergovernmental Panel on Climate Change (IPCC) and Reporting Standard.

- Scope 1 Direct Emissions include all natural gas and propane provided to owned or controlled facilities
  used for heating or food processing and manufacturing. Included in direct emissions are diesel used by
  Costco's truck fleets, refrigerated trailers and yard haulers; propane to power mobile floor scrubbers; jet
  fuel for corporate jets and fugitive emissions from leakage of HFC refrigerants from refrigeration and air
  conditioning equipment.
- Scope 2 Indirect Emissions are for purchased electricity and comprise the largest percentage of our total Scope 1 and 2 GHG emissions.

We continue to work toward managing our carbon footprint growth to less than our company sales growth. For the reporting period of 2020, we achieved that goal, as noted in our carbon footprint summary below.

We are working hard to decrease our energy usage and associated CO2e. While our total emissions did increase, our intensity continues to decrease despite adding more warehouse locations, expanding our reporting to include manufacturing plants, which includes our new chicken plant, and beginning to partially report our Costco Logistics delivery business. Details are stated below.

**COSTCO'S SCOPE 1 & 2 CARBON EMISSIONS SUMMARY** 

	SALES <sup>(1)</sup> (in thousands)	tCO2e (tons of carbon dioxide emitted)	tCO2e % Increase (over prior year)	Sales % Increase (over prior year)	Goal: CO2e increase < sales increase	Carbon intensity (CO2e/sales)
Total in Covered Regions in 2016 <sup>(2)</sup>	\$109,207,104	2,250,906	13.40%	2.10%	N	2.060
Total in Covered Regions in 2017 <sup>(3)</sup>	\$131,652,651	2,358,629 <sup>(5)</sup>	4.5% <sup>(4)</sup>	12.31%	Υ	1.791
Total in Covered Regions in 2018 <sup>(6)</sup>	\$142,645,070 <sup>(7)</sup>	2,508,419	6.5%	8.3%	Y	1.758
Total in Covered Regions in 2019 <sup>(8)</sup>	\$152,794,393	2,572,206 <sup>(9)</sup>	2.5% <sup>(9)</sup>	7.10%	Υ	1.683
Total in Covered Regions in 2020 <sup>(10)</sup>	\$170,683,124	2,663,033	3.5%	11.70%	Υ	1.560

- (1) Sales = Net sales as defined in our 10K and does not include membership income. Although Costco's financial reporting is done on a fiscal year basis, for purposes of CDP reporting, Sales have been converted to calendar year and are reflected in this chart.
- (2) Includes the following regions: U.S., Puerto Rico, Canada, Australia, Mexico, Spain, and the UK. These tCO2e numbers have been restated for 2016 to include all refrigerants resulting in an additional 127,481.8 CO2e. IPCC reporting guidelines offer a choice to include or exclude HCFC. Costco has revised internal policies to include refrigerants as a more appropriate method of calculating emissions.
- (3) Includes the following regions: US, Puerto Rico, Canada, Australia, UK, Mexico, Spain, Japan, South Korea, France, Iceland, and Taiwan. Costco has refined reporting to include all facilities in all regions, and all reportable sources.
- (4) In 2017, we included all operations worldwide in our calculations. Therefore, the corresponding calculation of year-over-year sales uses 2016 worldwide sales of \$117,223,539.
- (5) Restated to align with CDP reported numbers for the 2017 reporting year.
- (6) Includes the following regions: Australia, Canada, France, Iceland, Japan, Mexico, Puerto Rico, Spain, South Korea, Taiwan, UK, and the U.S.
- (7) Restated Sales number for 2018.
- (8) Includes all regions worldwide where we do business, including Scope 1 and 2 for China, which opened for business within the reporting year. Includes Scope 1 and 2 emissions for all manufacturing facilities for the duration they were open in the reporting year, including the Lincoln Premium Poultry plant in Nebraska, U.S.
- (9) Emissions for 2019 are restated which changes the % increase of CO2e.
- (10) Included all regions worldwide where we do business and all manufacturing facilities for the duration they were open in the reporting. This does not include all Costco Logistics facilities and does not include market offsets.

Throughout our Sustainability Commitment, you will find numerous references to our practices and operational efficiencies that help minimize our CO2e emissions, including our efforts stated on our <u>Energy and Refrigeration</u> page.

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