



- Costco Wholesale Corporation -
**SUSTAINABILITY
COMMITMENT**



2019



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- Costco Wholesale Corporation -
**SUSTAINABILITY
 COMMITMENT**
 2019 UPDATE

Our aim is that our business remains responsible, resilient and relevant in accordance with our Mission Statement and Code of Ethics.

Code of Ethics

- Obey the law
- Take care of our members
- Take care of our employees
- Respect our suppliers
- Reward our shareholders

Mission Statement

To continually provide our members with quality goods and services at the lowest possible prices.

These inform and guide our everyday goal to do the right thing and are the foundation of our business. Costco will continue to adapt as we learn more about our impact and global challenges such as climate change, human rights issues, and compromised natural resources.

We have adopted the following principles and responsibilities to help us navigate the dynamic and changing future while still striving to do the right thing and remain a low-cost and efficient business operator.

Sustainability to us is remaining a profitable business while doing the right thing. The following principles and responsibilities will help us sustain our business for the long term as we continue to grow globally.

Our Sustainability Principles

- For Costco to thrive, the world needs to thrive. We are committed to doing our part to help.
- We focus on issues related to our business and where we can contribute to real, results-driven positive impact.
- We do not have all of the answers, are learning as we go and seek continuous improvement.

Our Sustainability Responsibilities

- Take care of our employees.
- Support the communities where our employees and members live and work.
- Operate efficiently and in an environmentally responsible manner.
- Strategically source our merchandise in a sustainable manner.

In this document, we explain how we continue to incorporate sustainable practices in key aspects of our business. We provide examples to help illustrate our progress. We realize our practices may change over time, as we learn more and adapt to our ever-changing world, and we update our Commitment to reflect these changes. To see our progress, please review our Sustainability Commitments Archive.

For questions or more information, please contact Costco Customer Service.



EMPLOYEES



COMMUNITIES



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Certain statements contained in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the Company believes or anticipates may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. Statements contained in this document are aspirational and relate to the manner in which the Company currently intends to conduct certain of its activities, based on its management's current plans and expectations. These statements are not promises, guarantees, or statements on which you should rely with respect to the Company's conduct or policies, and are subject to a variety of risks and uncertainties, some of which may be material and/or beyond the Company's control. These risks and uncertainties include, but are not limited to, domestic and international economic conditions, including exchange rates, the effects of competition and regulation, uncertainties in the financial markets, consumer and small business spending patterns and debt levels, breaches of security or privacy of member or business information, conditions affecting the acquisition, development, ownership or use of real estate, capital spending, actions of vendors, rising costs associated with employees (generally including health care costs), energy and certain commodities, geopolitical conditions (including tariffs), the ability to maintain effective internal control over financial reporting, and other risks identified from time to time in the Company's public statements and reports filed with the Securities and Exchange Commission. Forward-looking statements speak only as of the date that they are made, and the Company does not undertake to update them, except as required by law.

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EMPLOYEES

Costco has more than 254,000 employees worldwide.

We understand that the key to Costco's continuing success and growth is the attraction and retention of great employees.

Compensation and Benefits

Everywhere we do business, we seek to provide competitive wages and benefits to our employees. The vast majority of Costco's workforce consists of hourly employees in warehouse locations. We compensate these hourly employees very well by retail standards. This helps us in the long run by minimizing turnover and maximizing employee productivity, commitment and loyalty.

In the U.S., we provide generous benefits, including affordable health care coverage for full-time and part-time employees, and sizable contributions to employees' company-sponsored retirement plans, based on years of service. We provide twice-yearly Extra Checks (bonus) for long-tenured hourly employees. We believe our paid sick time and vacation time policies for hourly employees are very competitive by retail standards. In 2019 we added paid bonding leave for new parents in hourly positions. We have adopted operational practices designed to benefit our hourly workforce, such as a 50% full-time ratio, guarantees of minimum scheduled hours, and weekly schedules posted at least two weeks in advance.

Our worldwide policies and practices are designed to mirror our practices in the U.S., subject to local regulations and customs.

For salaried management in our locations, as well as positions in the corporate and regional offices, we also seek to provide competitive compensation and benefits. Although many salaried employees might be able to find higher compensation or better perks at other companies, our retention rates, particularly for longer-term Costco employees, are very high. We believe our competitive compensation and benefits, opportunities for growth and advancement, and the stability and overall culture of the company are primary reasons for our strong retention rates. In the fall of 2021, salaried managers in our locations and on our merchandising teams will be eligible for a once yearly Manager Extra Check (bonus). We also publicly report the ratio between the median income of our employees and our CEO's total pay, which can be found in our [Proxy Statement](#).

Long-tenured Workforce

In the U.S., our employees have, on average, almost nine years of service with the company. Over 60% of U.S. employees have five or more years with Costco, and over one-third have more than 10 years. Costco also has long-tenured workforces in the other areas where we do business, particularly in more mature markets in Canada, the UK, Mexico and parts of Asia. Worldwide, we have over 13,000 employees that have more than 25 years of Costco service. We feel the experience level and loyalty of our

Inclusiveness and Equal Opportunity

We aim to have a diverse workforce that is representative of the communities where we do business, and to foster an inclusive environment. More information about inclusion at Costco and the diversity of our employees can be found in this summary.

It has always been Costco policy that employees should be able to enjoy a work environment free from all forms of unlawful employment discrimination. All decisions regarding recruiting, hiring, promotion, assignment, training, termination, and other terms and conditions of employment will be made without unlawful discrimination on the basis of race, color, national origin, ancestry, sex, sexual orientation, gender identity or expression, religion, age, pregnancy, disability, work-related injury, covered military or veteran status, political ideology or expression, genetic information, marital status, or any other protected status.

Our most recent analysis shows that men and women who perform substantially similar work are paid within 99.9% of each other after adjusting for key factors such as job, company seniority and hours worked. We examined each component of compensation including base pay, bonus and equity. If observed in the future, we would work to correct unexplained gender-based differences.

Culture and Open Door

A word that comes up frequently when we talk about the uniqueness of Costco is our "culture." While the culture of any company can be difficult to define, Costco employees know that an important factor in our past and future success is our ongoing commitment to basic principles such as simplicity, value, fairness, member service, and always striving to do what is right.

We also encourage an atmosphere of openness and support with our Open Door Policy, which allows any employee to discuss any issue with any level of management. In addition, we have a confidential ethics hotline available to employees at www.costco.ethicspoint.com. Every two years, we conduct employee surveys to obtain feedback concerning ethics, compliance and engagement.

Our employees play a significant role in teaching and reinforcing Costco's unique culture. As we move forward, it is imperative that we continue to perpetuate this culture throughout the company, wherever we do business.

employees gives us a significant advantage.

A related advantage comes from our philosophy and practice of promoting from within our employee ranks. We are very proud of the fact that over 70% of our warehouse managers began their Costco careers in hourly positions. In addition, a majority of our corporate and regional office employees started in our warehouses, depots and business centers.

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COMMUNITIES

Our business is successful not only when we provide quality merchandise at a good value for our members, but also when we make a positive contribution to the health of the communities where we do business and where our employees and members live and work.



CHARITABLE CONTRIBUTIONS

Costco's commitment is to be active in our local communities. We budget 1% of pretax profits for selected charitable contributions focused on children, education, and health and human services. In fiscal year 2019, we contributed over \$43 million to organizations such as United Way, Children's Miracle Network Hospitals, Costco Scholarship Fund, disaster relief, and many programs related to education, children, and health & human services. More information about our programs can be found at [Charitable Contributions](#).

Donation Programs

Worldwide, our locations donate to local community organizations throughout the year. Donation programs vary by location and by region.

Some examples include:

- Since 2012, Costco has partnered with [New Eyes for the Needy](#) to support its Overseas Program. Costco sends members' used eyewear and hearing aids to New Eyes where they are sorted, tested and repackaged for distribution to those in need around the world. Annual donations are approximately 260,000 used glasses and 1,800 hearing aids. Most often, the glasses are the first and only pair of eyeglasses the recipients have owned.
- Our food donation programs to people in need continue to grow. In fiscal year 2019, we donated over 62 million pounds of food from our U.S. warehouses and depots to Feeding America and also contributed \$2.25 million. All of our international locations also donate to local food banks.
- Our program with World Vision to donate non-food items to people in need continues to grow and in fiscal year 2019, we donated 42,493 pallets of products.*

*These donation programs are part of our [Waste Stream Management](#) plan, where you can find more detailed information.



HEALTH CARE

Products and Services

Costco provides low-cost, quality eye care through independent optometrists and our optical departments; hearing aid services and supplies in our hearing aid centers; and prescriptions and other health-related products in our pharmacies. Costco also provides flu shots and other immunizations, health screenings, and other programs.

Pharmacy Services

Besides being a low-cost source for prescription medications in over 670 pharmacies worldwide, Costco also provides the following special prescriptions and services in the U.S.:

- **Specialty drug** customized pharmacy services that requires patient-specific dosing and careful clinical management. More information can be found at [Specialty Drug Programs](#).
- **Access to naloxone** without a prescription in 43 states and Puerto Rico, with plans to expand the program to additional states. Naloxone is a life-saving medication that reverses an opioid overdose, and is part of the national strategy to combat the opioid overdose epidemic.
- **Prescriptions for contraceptives** in California, Colorado, Maryland, New Mexico, Oregon and Utah, with the intent to roll out the program where allowed by law.
- **Travel Medicine Services** in California, Idaho, Oregon, and Washington, which includes a pre-travel consultation to determine any health risks based on your itinerary and activities, a review of your health history and immunization status, tips on how to stay healthy during your trip, and a list of the recommended immunizations and medications.

Pharmacy Benefit Programs (PBM)

Costco Health Solutions, offers an alternative prescription benefits program dedicated to delivering the best pharmacy care to employers and their members. This includes a full spectrum of cost-effective, high-quality clinical programs that provide members with the care they need to help meet their health and quality of life goals. Our PBM program guarantees that



More information can be found about how Costco employees engage the community with and through Costco on this video.



COSTCO EMPLOYEE VOLUNTEER READING PROGRAM

This was the 21st year for Costco's Volunteer Reading Program. With 466 programs, over 70% of eligible locations participating (U.S., Canada, & Australia) and over 2,500 volunteers, this was Costco's most successful year for the program to date.

100% of all discounts from manufacturers for prescriptions will be passed back to the client. Companies that participate in Costco's prescription benefit program typically reduce costs by 10 to 25 %. More information can be found a [PBM programs](#).

Optical Services

Besides being a low-cost source for eyewear in over 746 optical departments worldwide, Costco also provides access to optical health services in the U.S., such as:

- **Independent Doctors of Optometry** located at or next to Costco Optical in most states.
- **Licensed and/or Certified Opticians** to answer eye care questions. Costco accepts most vision insurance plans.

Hearing Aid Services

Costco has over 690 hearing aid centers worldwide, staffed by licensed hearing aid specialists. Besides providing hearing aid tests and low-cost, high quality hearing aid devices, Costco also helps to improve the education of Hearing Aid Specialists through its partnership with the International Hearing Society. As a result, Costco has helped over 830 people in the U.S. achieve a new career as a hearing aid specialist since 2006.

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Costco's sustainability commitment also focuses on managing our operation of 785 plus warehouses worldwide in an energy-efficient and environmentally responsible manner. These efforts, together with our attention to detail to find efficiencies that lower costs, use fewer resources and generate less waste, help us remain a low-cost operator, become more efficient and reduce our carbon footprint. These measures also save money on energy costs.



BUILDINGS



TRANSPORTATION & LOGISTICS



GREENHOUSE GAS EMISSIONS



WASTE STREAM MANAGEMENT

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SUSTAINABLE CONSTRUCTION & LANDSCAPING

Sustainable Design

Costco is aware of its responsibility to design and construct its sites and buildings in an energy-efficient, sustainable and environmentally responsible manner. Costco's warehouse designs are consistent with the requirements of Leadership in Energy and Environmental Design (LEED), an internationally accepted benchmark for green building design and construction. In Shanghai, China, Costco's Minhang building qualified for the Green Building Design 2-star certificate.

Costco continues to improve the design and construction of its buildings, as technological advancements in these areas and building materials improve. Improved engineering and design has resulted in the use of less materials, such as columns and I-beams, while providing more strength. Costco prefers full metal buildings in order to use the maximum amount of recycled material and reduce construction and maintenance costs.



In Stevenage, England, we incorporated the concept of adaptive reuse of a building originally designed and constructed in 1963 in consultation with Félix Candela, the Spanish Mexican architect. Besides helping to preserve a historically and architecturally important structure, we were able to use less new building materials.

Recycled Materials

To reduce the use of virgin resources, materials are selected that utilize high percentages of recycled content. Examples include:

- The prefabricated structural steel system is comprised of 80% recycled content.

ENERGY EFFICIENCY & ALTERNATIVE ENERGY

Continuous Improvement Through Technology and Collaborative Learning

Costco continues to implement new and improved systems and technologies in order to save energy and reduce its carbon footprint throughout our locations worldwide. Examples include:

- Energy Management and Lighting Management Systems are used throughout North America to allow operators complete control of heating and cooling set points, lighting schedules, and system troubleshooting.
- Since 2017, facilities have been installing high-volume, low-speed fans to ceilings on the sales floor and in the tire shop. These fans work in conjunction with existing HVAC systems to decrease temperatures in the summer by up to 10 degrees. In the winter months, warm air is circulated from the HVAC lessening run time.
- In FY19, Mexico implemented a new energy measurement project that provides real-time monitoring showing energy savings for refrigeration, HVAC and lighting.
- In FY19, Taiwan exceeded its goal by over 100% to decrease its usage of electricity, gas, and water through training, better use of energy systems, and better conservation practices.

In order to stay abreast of changes, Costco:

- Participates in the U.S. Department of Energy's Better Building Alliance, the National Renewable Energy Lab and other conferences to evaluate and share new energy efficient technologies with both government and private industry.
- Held training sessions worldwide in 2019 to share and learn from each other best practices, to increase awareness about the importance of climate change, and to learn how to reduce our carbon footprint and save energy, all of which in turn save money.

Solar Power

Costco continues to increase the number of locations using solar photovoltaic systems. At the end of fiscal year 2019, Costco has 111 warehouses using solar power in Arizona, California, Colorado, Hawaii, New Jersey, New Mexico, New York, Ohio, and Puerto Rico, plus in Spain, France, the UK, Taiwan, and Japan. Some locations use solar power in the parking lots. These systems are projected to generate 92 million kilowatt

- Costco often incorporates existing structures into its designs.
- Metal building insulation utilizes ECOSE® Technology, which contains an average of 76.98% recycled content.
- Recycled asphalt is used in some new parking lots with recycled concrete as a base material.

Other Sustainable Features

When and where it makes sense, Costco incorporates other features into its buildings to reduce the use of resources and to save money, such as:

- Roofs maintain a reflectance rating of .68, emittance of .25 and SRI of 63, lessening the heat gain on the roof.
- The erection efficiency of the structural system and envelope reduces the overall construction duration, saving time and money.
- High-efficiency restroom fixtures save 40% more water.
- Mechanical heat from refrigeration systems is captured to preheat hot water tanks.

Sustainable Landscaping

Site designs take into account the surrounding environment and ecosystems, are mindful of wetlands and habitats, and preserve natural wonders. Examples include:

- Landscapes exceed minimum requirements in order to create high impact and beautiful landscapes appropriate to the location.
- In comparison to typical development standards, Costco provides larger trees, greater planting density, drought-tolerant species, native vegetation and less manicured lawns



Merida, Mexico

Cenote, viewed from above

- The Merida, Mexico, location has a cenote (natural sinkhole) onsite that was repaired and cleaned, and is named Ka'kutzal, a Mayan word meaning “back to life” or “rebirth.”



Before

After

- In 2017 Costco piloted a program in Covington, Washington, to use goats to remove unwanted vegetation around the water retention pond. This saved the company money in landscaping costs and eliminated the need for herbicides to kill unwanted vegetation. Costco continues to look for opportunities to expand this program where it makes sense.

hours (kWh) per year.



Lighting Systems

As of the end of FY19, the conversion to LED in older U.S. buildings that began in 2016 is mostly completed, with an estimated energy savings of over 235 million kWh per year. In addition, LED conversions continue for locations outside of the U.S. All lighting in new construction utilizes LED technology.



Fuel Cell Technology

In 2017, Costco began piloting the use of fuel cells as an alternative source for generating on-site electricity. As of the end of FY19, we now have eight locations in California powered by fuel cells that generate an estimated total of 49 million kWh of energy annually and have four additional locations under construction. To date Costco has found the following benefits:

- Lower demands on existing electric utility infrastructure
- Lower overall combined power and natural gas expenses



REFRIGERANT MANAGEMENT

Costco recognizes that refrigerants have a major impact on the warmth of the atmosphere and is exploring ways to do our part to reduce the temperature of the planet and the depletion of the ozone layer. Here are some examples:

- Continue to explore new refrigerant technologies and carefully select refrigerants that further reduce the Global Warming Potential (GWP) and GHG emissions and do not contain ozone depleting chemicals
- Migrate to CO2 refrigerants where it is operationally viable and as of the end of FY19, CO2 is currently in use in locations in Canada, Spain, the UK and Iceland
- Ceased using HCFC refrigerant in new and replacement refrigeration in commercial equipment and air conditioning systems



WATER EFFICIENCY

Comprehensive Water Management Systems

Since 2008, Costco has partnered with APANA™ to implement an Intelligent Water Management System. Costco continues to drive operational efficiency by using this program to lower overall operating costs through the elimination of waste in water and sewer use. Ultimately, this reduces related energy and maintenance costs. Using the APANA program, Costco is able to monitor real-time water use, detect inefficient consumption, and guide operators to quickly identify and reduce waste.

APANA Water Management Systems are currently installed in every warehouse in North America and Japan. Costco has plans to expand APANA systems to Australia, Asia and Europe.

By installing Apana water metering systems, Costco locations can now:

- Detect, in real-time, mechanical failures that can be resolved quickly and can now better track operational water waste to allow more efficient water use and/or reduced water usage
- Use less water so that less energy is needed to operate water systems, which in turn reduces Costco's carbon footprint and expenses
- Create an enhanced awareness of water use and stewardship throughout all facets of operations

Groundwater and Irrigation Systems

While landscaping is important for the beauty it provides, as well as the preservation of natural habitat, Costco also understands the need to be responsible regarding irrigation, and managing stormwater and water quality.

Costco uses the APANA platform to reduce water waste and protect assets such as parking lot surfaces, retaining walls, and building foundations. This helps to avoid costly repairs by detecting issues early and making timely repairs. Other structural and operational enhancements include:

- Integrating native and drought-resistant landscaping materials to minimize irrigation
- Utilizing smart technologies and subsurface irrigation to improve efficiency and to reduce water waste in irrigation systems
- Installing bioswales to preserve groundwater and to prevent runoff in some locations

Vertical Integration Facilities

In 2019, Costco began selling chicken and romaine lettuce produced in new vertically integrated facilities, which are described in more detail in our [Kirkland Signature™](#) and [Environmental Impacts](#) pages. Both facilities have been designed with water preservation, re-use, efficiency and treatment in mind.

Costco worked with the City of Fremont to expand the City's wastewater treatment plant in order to ensure that the wastewater generated at the chicken plant is treated before returning to the local watershed. In addition, through a process of air chilling, we anticipate substantial water savings in comparison to typical water chill processing. The APANA Intelligent Water

- Continue to improve the efficiency of HVAC and refrigeration systems through new technologies such as variable speed drives and more efficient motors, while meeting more stringent requirements for heating, cooling and humidity control
- Adhere to best management practices in the installation, maintenance and decommissioning of equipment to reduce leakages and impact on the environment
- Installed insulated doors to the walk-in refrigeration point of sale coolers. These doors allow the POS coolers to maintain temperature more easily while putting less stress on the refrigeration system. The estimated annual savings is 95,000 kWh per location.



ENVIRONMENTAL COMPLIANCE

Costco continually works to enhance and streamline its compliance with environmental regulations, including an Environmental Compliance Executive Team, that together with regional compliance managers and field auditors, oversees compliance programs in the U.S. To remain attentive to any issues or changes in regulations, the Compliance Managers meet regularly.

The Executive Team comes together three to four times a year. These meetings include representatives from numerous departments in the company and the meetings are used to review and implement programs and policies – and to continually improve training programs, procedures and communication.

In 2019, we held the first of our planned on-going annual global environmental operations meetings, which was attended by key environmental people representing all regions where we operate worldwide. The purpose of the meeting was and will be to share best practices, review compliance, discuss upcoming projects, with the goal of creating a consistent and global approach to environmental compliance.

Management System was also installed at this facility.

At the romaine lettuce greenhouse, we anticipate that 80% less water will be used in comparison to conventional farming and that there will be 0% wastewater runoff.

Car Washes

Costco exceeds the requirements and is a member of WaterSavers[®], a designation by the International Car Wash Association awarded to car washes that meet strict water usage criteria. When Costco began monitoring daily water usage in 2015, significant reductions in water used per wash were realized immediately. The net result was a 50% reduction as a result of:

- Installing simple digital water meters to help graph gallons used per wash and spikes to identify leaks or equipment malfunctions that are wasting water
- Installing water main shut-off valves after recognition of discrepancies between closing and next-day opening readings that indicated a significant amount water use when the car wash was closed

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Costco understands that the more efficient we can become through our distribution systems, the better we will be able to reduce our transportation costs, reduce the number of trucks on the road and in turn, reduce our carbon emissions. We also strive to improve the efficiency of our fleets and support our employees' efforts to reduce their transportation energy consumption.



DEPOT DISTRIBUTION CENTERS

Costco's depots (distribution centers) help reduce delivery costs by providing single-step handling of full pallets of merchandise from suppliers to warehouses. Costco continually evaluates its processes and implements ways to improve shipping efficiencies. These measures include packaging design changes and pallet configuration – resulting in more products on a pallet and fewer delivery trucks on the road.

Another way Costco reduces costs is by analyzing state weight and length oversize permits, and by using specialized equipment where geographically possible to handle heavier loads. Costco also employs longer combination vehicles to maximize trailer utilization.

The transportation team always looks for ways to reduce empty miles involving trucks returning to the depots from the warehouses, including:

- Picking up truckloads of merchandise that are destined for a Costco depot for distribution to a regional group of warehouses
- Loading trailers with returned goods that are headed to salvagers or need to be returned to the supplier, and consolidating those shipments into truckloads
- Growing the program with World Vision to donate many of these goods to communities in need worldwide. More information can be found at the Non-Food Donations section.

These streamlined "reverse logistics processes" help to reduce our merchandise handling costs and to free up sales floor space in the warehouses, which helps reduce operating costs and lower our carbon footprint.



BUSINESS DELIVERY FLEET

Costco's Business Delivery fleet continues to expand its internal initiative called "Truck of the Future" which is aimed at maximizing efficiency in our growing delivery fleets. In 2018, Costco successfully field-tested a customized vehicle with Penske Truck Leasing that improves the payload capacity by reducing body weight. This lighter truck increased the miles per gallon, lowering our fuel costs and carbon footprint. In 2019, we began rolling out these vehicles as Costco adds and renews fleet leases. Additional efficiency features and pilot programs implemented in 2019 include:

- Testing solar power to replace batteries
- Using half pallets that are lighter and more efficient for delivery to small businesses
- Working on the feasibility of using ocean plastic for production of half pallets instead of new resin
- Implementing new coolers that reduce the amount of dry ice by replacing them with gel packs
- Testing two electric trucks in California

Costco Business Delivery Centers also have implemented procedures to use electric plug-in shore power, tying into the grid to allow our refrigerated trucks to maintain temperature while being loaded and stored. This eliminates the previous practice of running the diesel reefer engine, thereby saving fuel and eliminating carbon emissions by over 70 percent for each truck that uses shore power.

Additionally, the Business Delivery fleet utilizes telematics – a standard option routing system now on all 2017 and newer Hino Trucks. This allows Costco to identify opportunities to increase mileage through better efficiency and to decrease idle time.



EMPLOYEE TRANSPORTATION & ELECTRIC VEHICLES

Costco continues to encourage its employees to utilize alternative forms of transportation with the goal of reducing energy consumption, emissions and commuter gridlock. The Commute Trip Reduction (CTR) program began more than 20 years ago at the corporate office with 18 vanpools, and has grown to 66 vans and 37 bus riders. Vans, fuel, maintenance and insurance are provided by five local transit agencies. Employees also receive a substantial financial subsidy from Costco, which in many cases covers their entire monthly commute expenses. Employees who regularly ride the bus are also eligible for this financial subsidy. Costco also has vanpools at its San Diego, Los Angeles and Mexico City regional offices, as well as many Costco warehouses.

In May 2019, we began a pilot program with Waze Carpool for employees who want to commute more efficiently, yet lack the flexibility or consistency required to commit to a vanpool. Through this pilot we are able to track metrics monthly, including the number of carpools, average commuting distance, total miles carpooled and CO₂e avoided. Additionally we continue to have many employees who choose to informally carpool with coworkers. We also offer secure bicycle storage facilities and locker room use for employees who choose to ride to work. Finally, recharging stations are available in three locations on campus for employees who drive electric vehicles.

CHARGING STATIONS

Costco continues to increase available electric vehicle charging stations and now has 16 locations (including the corporate office), supporting 48 charging stations. These stations supply over 95,546 kWh of charging service.

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As one of the largest retailers in the world, Costco understands our potential impact on the global waste stream and greenhouse gas emissions caused by waste. Costco's goal is to continually decrease the amount of its waste going to landfill.

WASTE DIVERSION FROM LANDFILL

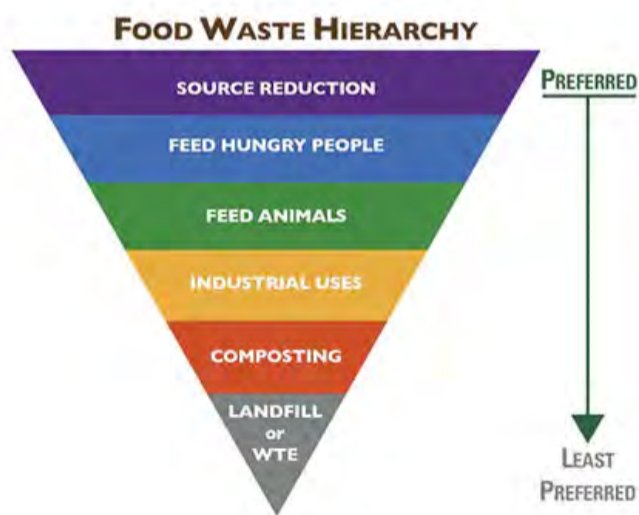
In fiscal year 2018, Costco reported a diversion rate of 71%, with five regions reporting. In fiscal year 2019, the global diversion rate increased to 73%, with an increase to nine regions reporting. We are working to develop reporting systems that will measure our diversion rate for all regions where we operate. Costco's current goal is to divert 80% of waste generated within our global operations. Examples of our waste management diversion programs include donations, anaerobic digestion, recycling, composting, and animal feed and waste to energy programs. Costco is committed to expanding these programs through partnerships, efficiencies and technologies. Please view this [summary](#) of our global waste diversion.

EFFICIENCIES, COST SAVINGS & REDUCED EMISSIONS

Effective waste diversion conserves natural resources, saves energy, and reduces expenses and emissions.

By diverting waste from the landfill, Costco increases the efficiency of waste hauling from our locations, which reduces fuel consumption, CO2 emissions generated from transportation, and hauling costs. Costco continues to examine waste disposal programs to maximize efficiency and to reduce costs. For example, Costco uses Wastenet™ to monitor waste pickups and reduce trash hauls by 8.9% in locations using this service. This maximizes efficiency and ensures that compactors are hauled full.

In addition, less waste to landfill reduces Greenhouse Gas (GHG) emissions caused by methane that is released from decomposing materials in the landfill.



REDUCING NON-FOOD WASTE

Costco continues to find ways to reduce non-food waste through efficiencies and other programs, some of which are described below.

Donate

Costco has grown its program with World Vision to donate first-quality items that used to be destroyed, recycled or returned to the supplier. In fiscal year 2019, we donated to people in need in 30 countries. More information can be found in the summary, which contains a list of the items donated and some stories that illustrate the impact of these donations.

REDUCING FOOD WASTE

For food waste, we follow the above Food Waste Hierarchy.

Source Reduction – Operations

There are numerous ways we reduce food waste within our operations through the creation of new items. We take unsold, but still food-safe, items and create a new item rather than throwing out perfectly good food. Some examples include:

Unsold rotisserie chickens are repurposed into deli entrees. Examples include:



Besides providing items to people in need valued at over \$76.2 million for fiscal year 2019, efficiencies are also gained, including reduced trips to the

- Chicken Noodle Soup, Chicken Enchilada Bake and Chicken Pot Pies sold in the U.S.
- Red Alfredo Chicken Penne and Honey Glazed Chicken Legs sold in Japan
- BBQ Chicken Wings, Chicken Enchiladas and Chicken & Mushroom Lattice Pie sold in the U.K.



Other examples include:

- Conversion of croissants into an Almond Croissant dessert item sold in Japan
- Purchasing ground beef from our meat department to produce stuffed peppers – saving approximately 1 million pounds of wasted food in the U.S. in fiscal year 2019
- Similar to the U.S., Canada also purchases ground beef to create Shepherd's Pie and Stuffed Bell Peppers.

Source Reduction – Kirkland Signature

We continually search for opportunities to reduce food waste when producing Kirkland Signature™ items. Examples include:

Kirkland Signature Farmed Tilapia Loins

We use the top portion of the loin, and branded suppliers use the bottom loin to create value-added tilapia items that Costco sells in warehouses.

Unused cashews from our whole nut program are used in other Kirkland Signature™ products such as Cashew Clusters & Protein Bars.

Moving our egg packaging to a clear clamshell has reduced food waste by 9 million eggs annually, which diverts 1.2 million pounds of food from the waste stream every year. The clear packaging allows members full visibility to the product, prevents leakage from excess handling and keeps the egg from breaking while in transport from the egg producer. For more information, please visit the [Packaging](#) section.

Our Kirkland Signature Croissants made in our Canadian Bakery Commissary are produced on lines that have less than 3% waste. This waste is shipped off-site and converted into animal feed. To learn more, please view our Vertical Integration section at Kirkland Signature.

landfill and savings on trash fees for both Costco and our suppliers.

Recycle



Over 518,383 tons
of cardboard and plastic wrap recycled globally in 2019

Corrugated Cardboard and Shrinkwrap

Warehouses routinely backhaul stretch-film and corrugated material generated from daily operations to our distribution centers in order to recycle. This practice diverts over 518,383 tons of material from the landfill annually, and reduces our costs and carbon footprint.



Tires

Costco recycled over 7.42 million tires in the U.S. in fiscal year 2019. While some tires are resold, over 85% are recycled into several different beneficial uses, including tire-derived fuels used primarily in cement kilns; crumb rubber used as an additive for road surfaces or pervious surfaces around roads, sidewalks and pathways; mine reclamation; daily landfill cover; and decorative mulch.

Paper

Costco has established a recycling program for paper in our offices and warehouses to capture paper printed for our everyday operations. In fiscal year 2019, we recycled over 5.5 million pounds in the U.S. We continue to move to paperless programs when applicable.

Recycle to repurpose

In fiscal year 2019, Costco also recycled 414,580 pounds of expanded polystyrene (foam) in the U.S. This material is densified and distributed to manufacturers that make picture frames, crown molding and other polystyrene products. Plus, Costco was able to recycle 1.7 million pounds of scrap metal, which made its way back into local commodities markets to be made into something new.

Waste to Energy

Waste (organic and non-food) also is used to generate energy. Costco currently has 46 locations in the U.S. that send trash to a waste-to-energy facility, essentially making these locations landfill-free. This program represents 33.2 million pounds of post-recycled waste that generated 9,130,000 kilowatt-hours of renewable energy, enough to power 9,530 homes for a month.



Feed Hungry People

Costco locations worldwide donate edible food products to food banks and other nonprofits in their local communities. Donation programs vary by location and by country. Fiscal year 2019 is the first year we reported global food donations, with a total of 772 locations donating food to people in need.

U.S. Food Donations

Costco continues to expand its program and partnership with [Feeding America](#) to prevent food from being wasted. Feeding America is a national organization in the U.S. that works with local food banks to bridge a partnership with our U.S. locations. Through these combined efforts, we are able to provide meals to individuals and families that are food insecure. In fiscal year 2019, Costco warehouses and depots donated more than 62 million pounds of edible food products in all states where we operate, which represents approximately 51.6 million meals donated to people in need. Our fiscal year 2019 donations was an increase of 78.6% over fiscal year 2018 donations of 34.7 million pounds.

Costco understands the importance of the types of food donated. We strive to provide healthy and nutritious food. In 2019, over 73.6% of the food donated was in the following categories: Produce/fruit/vegetables (36%), Grains/bread (26%) and Dairy/protein (11.6%).



Non U.S. Food Donations

In fiscal year 2019, Costco developed a partnership with [The Global FoodBanking Network](#). Through these efforts we have been able to provide resources for our non-U.S. warehouses to provide food to people in need. Costco currently works with certified members of The Global FoodBanking Network organizations because we are able to confidently donate to entities that have established food safety standards throughout the food chain. We are looking to expand this partnership where feasible in our global operations.



Feed Animals

In fiscal year 2019, 103 Costco warehouses sent 7.5 million pounds of organic materials to feed cattle and hogs. Feeding animals our inedible waste is important because it reduces the demand to generate new feed resources. Additionally, our warehouses divert organic materials by supporting local donation programs to:

- Animal sanctuaries/rescue centers
- Local farms
- City zoos

Industrial Uses

Much of our organic waste is now recycled into usable products, such as organic fertilizer, biofuels and electricity. In fiscal year 2019 in the U.S. we diverted over 58.4 million pounds of material from landfills. Examples include:

- 7.3 million pounds of chicken grease produced from rotisserie chickens were recycled, the majority of which was converted into biofuel;
- 37.1 million pounds of meat and bone scraps were processed through the rendering program;
- 302,525 pounds of organic waste was converted into certified organic liquid fertilizer
- Anaerobic digestion programs were rolled out in 3 marketplaces

Composting

Over 60 warehouses in the U.S. send organic waste to commercial compost facilities to create a nutrient-rich soil conditioner. Warehouses have sent 17.3 million pounds to compost facilities.

Landfill or Waste to Energy (WTE)

Compactors that are hauled to waste-to-energy facilities may include organics in their mix of waste. These items are used to generate energy. Our goal is to continuously move food waste up in the hierarchy, and out of landfills and waste to energy.

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Costco is a global retailer that strives to be a responsible global citizen. We agree with the many scientists, economists and others who have concluded that global climate change is a serious environmental, economic and social challenge. It warrants an equally serious response by governments and the private sector, because global climate change impacts all of us: people, animals and plants. We want to do our part to lessen the impact and will continue to explore ways to lower our carbon footprint, source merchandise responsibly, and preserve natural resources and support alternative opportunities such as carbon sequestration.

Our Goal and Continuous Improvement

We continue to work toward maintaining our carbon footprint growth to less than our company sales growth. For the reporting period of 2018, we achieved that goal, as noted in our carbon footprint summary.

Throughout our Sustainability Commitment, you will find numerous references to our practices and operational efficiencies that help minimize our GHG emissions.

Risk Factors

We also recognize that the subject of climate change is significant for a number of our members and investors. It is also a risk factor for certain aspects of our business*.

Operations

Continuing to focus our expertise on reducing costs and improving efficiency is, we believe, the best way to reduce our impact on the environment. By way of example, in 2019, we continued to:

- Reduce our energy usage
- Support and explore alternative energy programs such as energy from solar and fuel cells
- Improve our refrigeration management systems, and begin to convert to refrigerants with a lower GWP, including installing CO2 systems
- Expand efficiencies in our transportation and logistics, which reduce the number of trucks on the road and fuel needed for the trucks used
- Reduce the amount of waste to landfill through our expanding Waste Management Programs
- Support employee transportation programs to reduce the amount of cars on the road

Energy Use

Purchased electricity for the company is the largest source of our carbon emissions and represents a significant expense. By reducing energy usage directly, our emissions and energy expenses will be reduced. Some examples:

- In Japan, we have upgraded our lighting systems. The Kanazawa Seaside location received an award from the Yokohama city government for reducing CO2 emissions by 300 cubic tons, which exceeds 10% savings.

COSTCO'S CARBON FOOTPRINT SUMMARY

	SALES (in thousands)	tCO2e (tons of carbon dioxide emitted)	tCO2e % Increase (over prior year)	Sales % Increase ⁽³⁾ (over prior year)
Total in Covered Regions in 2016 ⁽¹⁾	\$109,207,104	2,250,906	13.4%	2.1%
Total in Covered Regions in 2017 ⁽²⁾	\$131,652,651	2,358,629 ⁽⁴⁾	4.5% ⁽⁴⁾	12.31%
Total in Covered Regions in 2018 ⁽⁵⁾	\$145,885,315	2,508,419	6.5%	10.8%

(1) Includes the following regions: US, Puerto Rico, Canada, Australia, Mexico, Spain, and the UK. These tCO2e numbers have been restated for 2016 to include all refrigerant resulting in an additional 127,481.8 CO2e. IPCC reporting guidelines offers a choice to include or exclude HCFC. Costco has revised internal policies to include refrigerants as a more appropriate method of calculating emissions.

(2) 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.

(3) 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.

(4) Restated to align with CDP reported numbers for the 2017 reporting year.

(5) Includes the following regions: Australia, Canada, France, Iceland, Japan, Mexico, Puerto Rico, Spain, South Korea, Taiwan, UK and the U.S.

This inventory is used to track emissions trends, to monitor the amount of greenhouse gases produced directly and indirectly in our business, to identify our electricity usage, and to help us develop usage reduction procedures that ultimately reduce our expenses.

- We reduce emissions by purchasing source-based renewable energy when available and continue to add solar panels where feasible.

More information about our energy use can be found at our [Energy](#) section.

Greenhouse Gas (GHG Emissions Inventory)

Tracking and reporting our GHG footprint is evidence of our commitment.

We have a corporate energy program to track greenhouse gas emissions.

Starting with reporting year 2018, the data collection process has been upgraded to include source data collection at the facility level for all regions of our operations. We have ceased installation of HCFC refrigerants, ozone-depleting substances, in new and replacement refrigeration and air conditioning systems.

For the 2018 reporting period, we voluntarily participated in the [Carbon Disclosure Project \(CDP\)](#), established by the GHG Protocol Corporate Accounting and Reporting Standard, and this year's inventory included all regions where we operate. 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 are the largest component of GHG emissions.

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*Factors associated with climate change could adversely affect our business. We use natural gas, diesel fuel, gasoline, and electricity in our distribution and warehouse operations. Increased U.S. and foreign government and agency regulations to limit carbon dioxide and other greenhouse gas emissions may result in increased compliance costs and legislation or regulation affecting energy inputs that could materially affect our profitability. In addition, climate change could affect our ability to procure needed commodities at costs and in quantities we currently experience. We also sell a substantial amount of gasoline, the demand for which could be impacted by concerns about climate change and which also could face increased regulation. Climate change may be associated with extreme weather conditions, such as more intense hurricanes, thunderstorms, tornadoes, and snow or ice storms, as well as rising sea levels. Extreme weather conditions increase our costs, and damage resulting from extreme weather may not be fully insured.

Last Updated: December 2019



Costco is committed to providing our members with high-quality goods at the lowest possible price in a way that is respectful to the environment and to the people and animals that produce these goods. There are many factors that go into how we source our goods. Here are some guiding principles, with a few supporting examples.



KIRKLAND SIGNATURE



HUMAN RIGHTS



ANIMAL WELFARE



SUSTAINABLE FISHERIES



ENVIRONMENTAL IMPACTS & LAND STEWARDSHIP

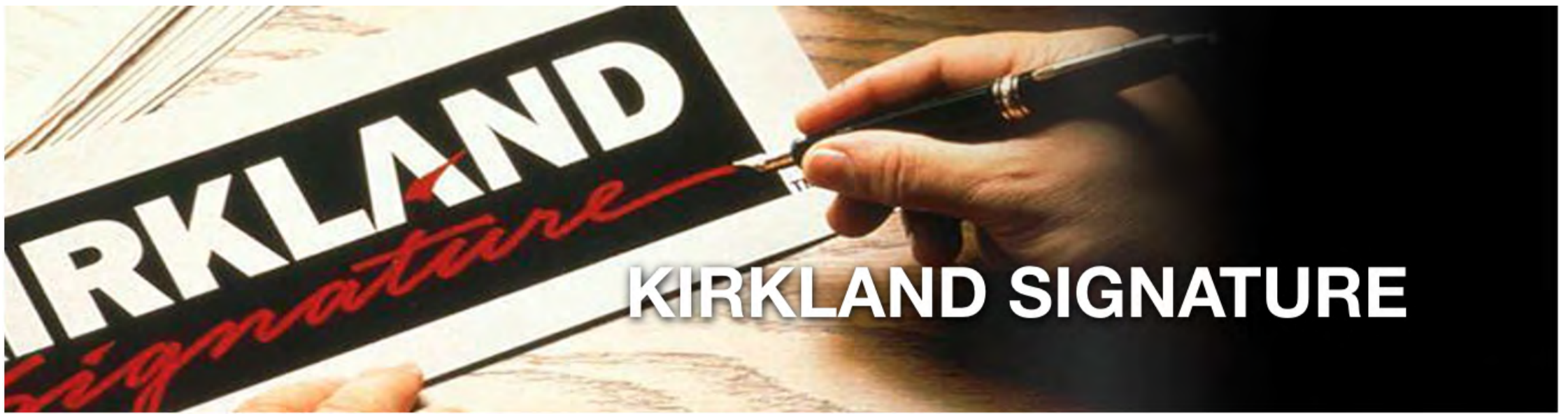


PACKAGING



CHEMICAL MANAGEMENT

Last Updated: December 2018



While a majority of our merchandise is branded, Costco created a line of exclusive private-label products called **Kirkland Signature™**. In developing Kirkland Signature products, we have the unique opportunity to have better control over the entire supply chain, including where the product comes from and under what conditions it is produced.

Our goals for Kirkland Signature items are that they:

- provide our members with high-quality products at the lowest possible price;
- are respectful of the people or animals who produce them; and/or
- are respectful of the environment in the way they are produced, grown, harvested, processed, transported and packaged.

To meet these goals, our buyers work with our suppliers to continually improve the quality of Kirkland Signature products, expand traceability, provide a fair return to people in the supply chain, and facilitate access to global or regional markets.

Traceability

Traceability is important for several key reasons. It enables Costco to know the quality and safety of the product; to examine issues of environmental impacts; to list product origin information on the label; and to help people in the supply chain receive a fair return, so that the product can succeed in the long term.

Fair Return

A fair return in the supply chain is important; for Costco to be successful, its suppliers must thrive. This commitment helps to ensure long-term supply and quality while also using market-based approaches to address poverty and malnutrition. Costco believes a fair return is more than the price paid for the item. It includes programs that (1) support producers (i.e., ranchers, farmers, growers/workers) and their communities through training for higher yields, quality and adaptation due to climate change; (2) pay premiums for high-quality products; and (3) improve health, education, housing, clean water and nutritious food for farmers/workers and their communities.

Continuous Improvement

We're working toward these goals one item at a time. Though there is still a way to go in certain areas to meet these goals, we are also encouraged by stories of success in the Kirkland Signature™ items to date, a few of which are outlined in this section.

VERTICAL INTEGRATION AND IN-COUNTRY FACILITIES

In order to secure long term-supply, ensure quality products, create efficiencies, and eliminate unnecessary costs, Costco has been exploring



COTTON

Kirkland Signature Textiles

Our Kirkland Signature™ products made from Pima and or extra-long staple length (ELS) cotton require DNA testing protocols to verify these species. DNA testing is completed in multiple stages of the supply chain. In addition, Kirkland Signature Bed Sheets are made from Pima cotton grown in the Central Valley of California. Through a patented technology, a program to test the traceability of cotton fiber through the entire supply chain has been established. This helps track the purity of the cotton and verify the manufacturing process from the fields to our shelves, ensuring higher quality. More information can be found in this [Cotton Traceability video](#).

Organic Cotton

Manufacturers claiming Organic cotton must be certified by Global Organic Textile Standard (GOTS). GOTS is the global industry leader certifying textiles processing for organic fibers including cotton. The GOTS system certifies product throughout the entire textile supply chain ensuring the organic status of cotton from raw materials to the end consumer.

the possibilities of vertical integration and in-country processing of some key Kirkland Signature items, summarized below.



Poultry Production

In 2019, Costco began to transition some of its Kirkland Signature™ rotisserie chicken and fresh chicken in the meat case to chicken produced in a new vertically integrated facility located in Fremont, Nebraska, referenced as the “chicken complex.” The chicken complex is owned by Costco and operated by Lincoln Premium Poultry (LPP), a Costco affiliate with poultry experience.

The goals of Costco and LPP are to create a vertically integrated chicken complex that:

- incorporates state-of-the-art equipment and design to all buildings
- provides significant economic benefit to the local community and farmers
- treats the chickens in accordance with the highest animal welfare standards
- is environmentally responsible, and
- provides our members with the highest quality product at the lowest possible price.

Processing Facility

The entire chicken complex is located on approximately 430 acres, and includes a feed mill, hatchery, processing plant and testing laboratory currently under construction. The facilities are designed to conserve water, prevent runoff and treat the water before returning to the watershed. More information about water usage can be found on our [Buildings](#) page.

Facility Employees

The chicken complex will employ approximately 1,000 once the plant is at full production. Besides paying good wages and providing competitive benefits such as health care, 401(k) retirement opportunities, and paid vacation and sick leave, the plant will be subject to audits conducted by an independent third party auditor to ensure it is in compliance with the same Costco Supplier Code of Conduct that all other Costco suppliers worldwide abide by. More information about our Supplier Code of Conduct can be found on our [Human Rights](#) page.

Local Farmers/Growers

The chicken complex will rely on the support of approximately 128 local farmers to grow the chickens required for the successful operations of the complex. Key features of this arrangement include:

- Growers receive a 15-year GIPSA contract (USDA Grain Inspection, Packers and Stockyards Administration), with a guaranteed base pay and the ability to earn a bonus. The state-of-the-art barns and equipment are built according to Costco/LPP specifications and are grower owned and/or operated.
- LPP provides growers with the chicks, feed (see below), feed management plan, technical expertise and veterinary services.
- Grower contracts allow for peer review for grower improvement programs and to resolve disputes.
- Growers will be subject to strict animal welfare procedures audited by independent third party auditors, and biosecurity measures approved and monitored by the Nebraska Department of Agriculture. More information on Animal Welfare can be found in the Animal Welfare section.



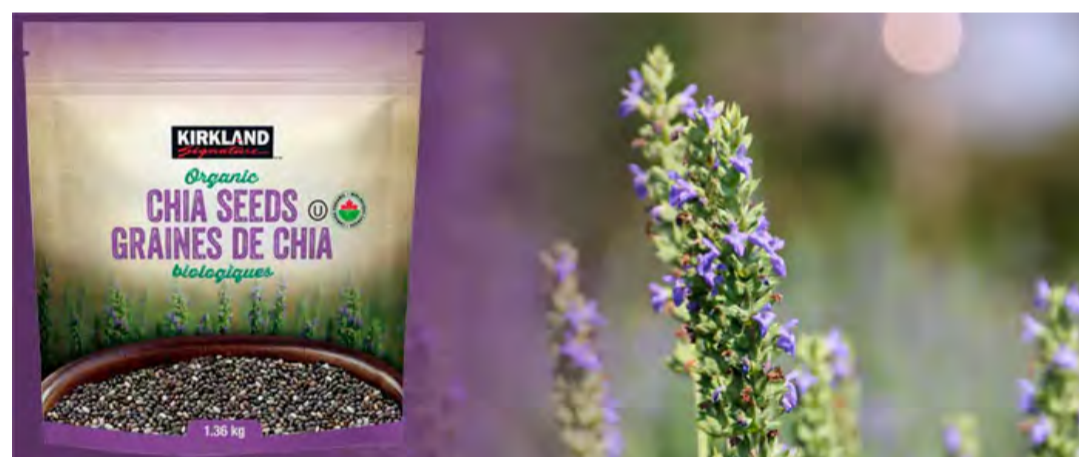
QUINOA

Kirkland Signature™ Organic Quinoa is mainly sourced from Bolivia and Peru. Quinoa is a highly resilient plant, thriving where no other crops are viable. It grows on saline, desert lands at an altitude of 12,000 feet, receiving on average only 8 inches of rain per year.

In Bolivia, we source quinoa from traditional smallholder farmers in the high Andean plateau through one of our suppliers, [Andean Naturals](#). Andean Naturals is concerned about soil health and erosion, and developed the Quinoa Soil Health Program in 2010, with these goals and outcomes:

- Reducing erosion, and improving microbial life and organic matter in the soil while also improving the incomes of traditional farmers
- Setting up 907 hectares of demonstrative plots on 337 farms to train growers and model the impact of protective hedges made from native brushes, rotation with a native lupine, and compost production and application
- Improving yields by 83%
- Doubling the income of smallholder farmers

We believe that healthy soils grow strong plants, which in turn will produce the best quality quinoa for years to come. More information and photos from our trips to visit the quinoa farmers can be found in the following links: [Quinoa Presentation](#) and the [Costco Connection](#) article.



CHIA

[Mayorga Organics](#) is one of Costco's sourcing partners for Kirkland Signature™ Organic Chia sold in Canada. Mayorga Organics focuses exclusively on organic crops and develops direct relationships with smallholder farmers in the more remote regions of Latin America. The company focuses on crop diversification and crop rotation to ensure that small farmers maintain healthy soils and diversified sources of income. In addition, Mayorga supports producers with access to financing, payment advances, agronomists, and seeds, and by paying fair prices.

To hear from Mayorga's partner chia farmers, watch this [video](#):

Local Grain

The feed mill sources corn and soybeans from local farmers, which adds another economic benefit to the region surrounding the chicken complex. These grains are used to provide nutritious feed for the growers at no additional cost, as feed is included in the grower contracts.

Watch this [video](#) to learn more from a local grower.



Greenhouse Grown

In 2019, Costco began to sell Kirkland Signature™ romaine lettuce produced by Go Green's California greenhouse. We invested in this business to address food safety concerns, increase water efficiency and reduce waste. At this 600,000-square-foot greenhouse operated 365 days a year, romaine lettuce will be organically grown, harvested and palletized onsite.

Costco will implement total crop utilization to reduce waste by selling the romaine hearts in individually sealed packaging and by selling the outer leaves of the hearts as chopped romaine, after it is washed four times. Transportation costs and fuel usage will decrease as the greenhouse is located near our Tracy, California, depot. For more information, please see our section on [Water usage](#) and [Environmental Impacts](#).

Canadian Commissary

In 2017, Costco began producing frozen baked goods to ship to our Canadian in-warehouse bakeries. In 2019, shipments have expanded to the U.S. This 93,700-square-foot facility is state of the art with three production lines that produce only seven items for the greatest efficiency. Focusing on producing our high-volume items for Costco Bakeries, while controlling costs and maintaining the highest quality of ingredients, has allowed us to lower the cost to our members.

As a new production facility, the commissary has been able to achieve just over 2% waste from all lines. This waste is then shipped off-site and converted into animal feed, which reduces the waste leaving the facility to a minimum. Utilizing bulk ingredient delivery systems also keeps the packaging of plastic and cardboard to a minimum.

In-Country Production

In order to reduce ocean freight and transportation emissions, lower costs while retaining product quality, and increase the shelf life of food items, Costco is now exploring in-country production of some of its high volume Kirkland Signature™ items. Some examples include:

- Kirkland Signature Bath Tissue is now produced in eight regions
- Kirkland Signature Bottled Water is now produced in six regions
- Kirkland Signature Roasted Cashews and Mixed Nuts are now produced in two regions



COFFEE

Costco has numerous Kirkland Signature™ coffee items sourced from around the world. Some are Fair Trade Certified™, including Kirkland Signature K-Cups®. This certification reflects Costco's commitment to source sustainably grown coffee and to maintain quality relationships with the farmers who supply it. Other coffee items are supported by sustainability programs that focus on farmer training, education, housing and/or health care.

Each item has a unique story. More information can be found about these programs in our [Costco Connection article](#), [Rwandan video](#), and [Guatemalan video](#).

In addition, Kirkland Signature Ground Colombian coffee is [nitrogen flushed](#), allowing for a lighter can, which in turn allows Costco to put fewer trucks on the road and to lower its carbon footprint.

In August 2019, we launched Kirkland Signature™ Organic K-Cups® with recyclable K-Cup® Pods.



EXTRA VIRGIN OLIVE OIL

Costco has a long history of supporting smallholder olive farms. Since 1996, Costco has directly supported thousands of smallholder farms in Tuscany to make high-quality Kirkland Signature™ Toscano PGI (Protected Geographical Indication) Extra Virgin Olive Oil. PGI signifies that every grower is registered, the number of trees and yields on each property are verified, and each bottle is numbered in Tuscany under the strict guidelines of PGI to ensure traceability, authenticity, and quality. More information can be found in this [Tuscan video](#).

Kirkland Signature 100% Italian Extra Virgin Olive Oil, sourced from outside Tuscany, is certified by an independent third-party organization, with each bottle carrying an ISO-certified sticker. More information can be found in this Italian [Olive Oil video](#)

We continue to expand our certified single origin olive oil offerings from Greece, Italy, and Spain. More information can be found in this [Spanish video](#).



PAPER PRODUCTS

Our goal is to have all Kirkland Signature™ paper products certified from well-managed forests. Examples include:

- As of the end of December 2019, Kirkland Signature Bath Tissue, Facial Tissue, Paper Towels and Napkins sold worldwide are now certified by the [Forest Stewardship Council \(FSC\)](#), [Sustainable Forestry Initiative \(SFI\)](#) or [Programme for the Endorsement of Forest Certification \(PEFC\)](#), as outlined below:

Item	USA	CA	MX	AU	JP	KO	TW	CN	EU
BATH	FSC	FSC/SFI	FSC	FSC	FSC	FSC	FSC	FSC	FSC
TOWEL	PEFC/SFI	SFI	SFI	SFI	SFI	SFI	SFI	SFI	FSC
NAPKIN	SFI	SFI	SFI	FSC	FSC	FSC	FSC	FSC	SFI
FACIAL	FSC	SFI	N/A	N/A	N/A	N/A	N/A	N/A	SFI

- 100% of Kirkland Signature Parchment Paper sold worldwide is FSC certified.
- 100% of Kirkland Signature Gift Wrapping Paper sold worldwide is FSC certified.

More information can be found in the [Wood, Paper and Fiber-based Products section](#).



HONEY

Costco understands that the honeybee population is experiencing multiple health threats. Honeybees are necessary for the pollination of approximately one-third of the food consumed, including fruit, nuts and vegetables. Since 2012, Costco has invested over \$4 million in honeybee health by contributing a portion of its sales of Kirkland Signature™ Honey items to the nonprofit honeybee research organization [Project Apis m \(PAM\)](#). The projects that Costco supports focus on four areas:

- Long-Term Stock Improvement**, which includes breeding and developing varroa resistant bees for a sustainable, chemical-free varroa control option, and maintaining a functioning and sustainable genetic repository for honeybee germplasm to safeguard the genetic integrity and diversity of honeybees against future health threats. More information can be found here, [The Hilo Bee Project](#) & [Video of Project](#)
- Apiculture Technology Transfer Teams** give U.S. beekeepers technical support in the field, survey honeybee health, and educate beekeepers about Best Management Practices. These teams save beekeepers money, prevent losses, and help to keep a finger on the pulse of bee health nationwide.



COCONUT WATER

Kirkland Signature™ Coconut Water is sourced from the Philippines, where over 30% of the country's households derive their income from coconut. However, this income is low due to lower productivity. A portion of past Costco sales supports the [Hope in a Coconut program](#), which improves farmer incomes through the replanting of higher yield seedlings, intercrop training, education opportunities, and direct market linkages. To date, sales have helped to build 12 elementary school classrooms, with one using eco-bricks made from recycled water bottles. More information can be found in this [summary](#) of Costco's - Hope in a Coconut program.



WILD ALASKAN SALMON PRODUCTS

In Alaska, the sustainable management of salmon is protected by the Alaska State Constitution and serves as a model for sustainability. Costco supplier [Trident Seafoods](#) maintains full ownership and control of the Alaskan salmon it provides to Costco.

Together Costco and Trident Seafoods have developed numerous products to maximize the utilization of every fish harvested, including items such as fresh salmon fillets flown directly to warehouses, Kirkland Signature skinless boneless canned pink and sockeye salmon, Wild Alaskan Salmon Burgers, Kirkland Signature Wild Alaskan smoked sockeye salmon, and Pure Alaska Omega™ Wild Alaskan Salmon Oil.



ORGANIC EGGS

Costco has worked closely with a number of egg producers to source organic eggs across the U.S. We support several producers in converting conventional operations to organic: More information can be found in this [Costco Connection article](#) and [Wilcox Farms video](#).

In 2010, Costco and its organic egg farmers partnered with the Sustainable Food Lab to estimate the greenhouse gas (GHG) emissions in the organic egg supply chain over a three-year period through the use of the Cool Farm Tool. The estimate showed that the highest GHG emissions were produced

- **Ph.D. Scholarship Grants** provide in excess of \$800,000 to support the future of honeybee research. The next generation of bee scientists bring new ideas, skills, and dedication to the field of experts. The program recognizes and supports outstanding graduate students who are pursuing research-based doctoral degrees in fields within the Project Apis m. mission of enhancing honeybee health while improving crop production. More information about these scholars can be found here:

[2019 USA Costco Scholars](#), [2019 Canada Costco Scholars](#), and [2016 USA/Canada Costco Scholars](#).

- **Seeds for Bees Forage Enhancement** puts blooming plants back on the agricultural landscape, helping bees get the nutrition they need to stay healthy, pollinate, and make honey – all while increasing soil health and water infiltration. For more information, please view [The 2019 Seeds for Bees Impact Report](#).

In 2019, Costco introduced an additional and new honey category: 100% Local Raw Unfiltered Honey from various regions around the U.S. More information can be found in the following Costco Connection articles on [regional honey](#) and [bee health](#), in the [Pollinator Health](#) and [Chemical Reduction](#) section, and at [ProjectApism.org](#).

 Kirkland Signature Cocoa

COCOA

The majority of Kirkland Signature chocolate products are made from cocoa sourced through sustainable programs, some of which are from Costco's Sassandra Cocoa program. The Sassandra Program ("Program") is a partnership with Costco, Blommer and Olam, which began in October 2009 and is named after the Sassandra River in the southwest region of Cote d'Ivoire. This is the original location of the cooperatives from where we source our cocoa beans. This program is exclusive to Costco and is designed to provide a quality product that is traceable, improves profits and livelihoods for the farmers/cooperative members, and introduces respectful environmental practices. It is audited annually by an independent third party. Highlights of the program include:

- Premiums of over \$12 million paid for quality product;
- Traceable and segregated cocoa;
- Improved production through financing and farmer training;
- Child labor Monitoring and Remediation programs (described in more detail below);
- Environmental practices and GPS polygon mapping to reduce risk of deforestation;



- Cooperative development and training;

through feed, followed by transport and manure management. Once aware, these farmers started to take action to lower emissions, which were reduced over the three-year period by 14% for the entire supply chain. More information can be found in this [case study](#).



ORGANIC MILK

The Kirkland Signature Organic Milk program is offered to our members throughout the U.S. We have partnered with suppliers that provide high-quality milk at competitive prices. Learn more about one of these suppliers that also has an excellent animal welfare program and works with Costco to ensure a long-term supply of organic milk and feed. More information can be found on the [Organic Milk Video](#).



GASOLINE

Except for in Japan and Taiwan, Costco offers Kirkland Signature™ Gasoline, which has five times the EPA minimum requirements for detergent additives to help keep the engine intake valves and fuel injectors clear of harmful carbon deposits. Our additives also clean up existing deposits. Clean engines run better, and thus deliver the fuel economy, performance and lower emissions benefits that modern engineering provides. Since Costco sells a lot of gasoline, this translates into millions of vehicle miles driven with lower emissions. More information about additives can be found at the [Costco Gasoline Stations](#) page.

Station maintenance, equipment and design are all chosen to limit emissions arising from station operations, and to contain vapor. In addition, our stations have corrosion-proof, double-wall underground storage tanks and piping that are continuously monitored for leakage. Costco works with equipment manufacturers and regulatory agencies to constantly improve and certify innovative safety and pollution-control technologies, such as dripless nozzles, vapor processors, and advanced leak detection. Finally, our station attendants are trained and certified on safety and environmental issues.





BABY WIPES

Costco is committed to providing members with products that are sourced in an environmentally responsible manner. Kirkland Signature™ Baby Wipes are made with biodegradable, renewable fibers derived from 100% plant-based materials. In addition, Costco supplier Nice-Pak® incorporates sustainable practices into the production process that reduces water, energy, CO2 and waste to a landfill.

- Social infrastructure investment, which includes schools, health centers, maternity wards, and community investments such as water pumps and storage facilities; and
- Community development with a focus on women’s empowerment through literacy and numeracy programs, alternative income generating activities, village savings and loan programs, and community gender equality sensitization programs.



Although we have had child labor monitoring and remediation programs in place for several years, child labor is a complex and systemic problem that needs to be addressed in a multifaceted way. When cases of child labor are identified our partners begin to work on implementing a remediation plan for that family. They also conduct follow-up visits to ensure the remediation plan is effective. Examples of our multifaceted remediations are described in the [Program Summary](#) and include:

- Increasing access to quality education through building classrooms
- Facilitating the issuance of birth certificates, which allow the children to attend school
- Providing school kits often needed for classwork
- Building awareness in the community of the dangers to children include, but are not limited to, carrying heavy loads, using machetes, and exposure to pesticides

More information can be found in the [Sassandra Program Summary](#) and [Costco Connection](#) article.

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Costco is committed to protecting the human rights, safety and dignity of the people who contribute to the success of our business. We also seek to support the welfare of the people who produce, process and harvest the products we sell.



SUPPLIER CODE OF CONDUCT

We live by our Supplier Code of Conduct in how we approach our business. This Code is global in its scope, and applies to all suppliers and their facilities, as well as our manufacturing facilities. In order to align with international standards, it is derived from the policies, standards, and conventions of the United Nations (UN) and the International Labor Organization (ILO), as well as other leading independent standards such as the Responsible Business Alliance (RBA) and Worldwide Responsible Accredited Production (WRAP).

Our Supplier Code of Conduct

Ultimately, the Code was established to protect the human rights and safety of the people who produce, process and/or harvest the products we sell, while recognizing and respecting the cultural and legal differences found worldwide. To this end, Costco:

- Prohibits slave labor, human trafficking, illegal child labor, illegal prison labor, physical and sexual abuse, bribery or attempted bribery, and health and safety conditions posing immediate risk to life and limb
- Expects our suppliers to comply, at a minimum, with the applicable labor and environmental laws and regulations of the country where the merchandise is produced
- Encourages our suppliers to work to achieve “Above and Beyond Goals”
- Allows suppliers to use legal prison labor, to support rehabilitation and restitution, under specific conditions, which are outlined in our Global Policy on Prison Labor

Verification

Because of the number of suppliers the Company has and their geographic dispersion, it is simply not practical to audit on an ongoing basis to confirm that all suppliers are in compliance with all aspects of our Supplier Code of Conduct. Accordingly, we take a risk-based approach with respect to targeting audits and otherwise seeking to confirm compliance. In FY 2019,



STRATEGIC COLLABORATION

Costco recognizes that collaboration with multi-stakeholder coalitions is key to addressing many of the issues facing our business. We acknowledge that social compliance audits alone will not fully address the complex issues within our supply chains. Therefore, we have joined multiple efforts to help improve the working conditions of people within our supply chains. Some examples include:

Shrimp

Costco buys shrimp from Thailand, India, Vietnam, Indonesia, Mexico and the U.S. We helped organize and are an active member of the Seafood Task Force, which involves assessing the labor practices in the fishing industry. The Seafood Task Force includes representatives from Thai shrimp feed manufacturers, shrimp processors, certain major retailers in the U.S. and Europe, and nongovernmental organizations (NGOs). The Task Force has engaged with the Thai government and has set three primary objectives:

- Implement verification systems to trace fish supplied to the feed mills
- Create and enforce a code of conduct for vessels sourcing fish for fish meal plants
- Improve the sustainability of two of Thailand’s major fisheries that supply fish meal

Costco continues to support subgroup of the Seafood Task Force to explore responsible labor recruitment. The group’s primary goal is to leverage the power of the membership to build demand for ethical recruitment practices throughout member supply chains.

Recruitment

Costco recognizes that the unethical recruitment of workers, which may involve exorbitant fees paid by workers to labor recruiters, the retention of workers’ passports or other personal documents, labor contracts not in a language understood by the worker, etc., is a leading cause of forced labor and human trafficking around the world. We are beginning to address this as follows:

over 4,300 independent third party audits were conducted.

- For those suppliers that are in full compliance with our Code of Conduct, subsequent audits may be less frequent, as a way to reward suppliers and to encourage continued compliance long term.
- We recognize there is always room for continuous improvement and that some suppliers will need assistance to come into full compliance with our Code. For suppliers with audits that reveal the need for improvement, Costco requires Corrective Action Plans, re-audits to determine progress. Costco also offers other capacity building services that improve management systems to address the root causes of previous violations of the Code. Costco prefers to work with suppliers and/or their facilities to correct Code violations rather than apply sanctions that may cause further hardship to workers and their families who depend upon the employment.
- Depending on the severity or lack of remediation of a Code violation(s), we do reserve the right to terminate our relationship and/or purchase order(s) with a supplier and/or their facility and have done so.

Employee Engagement

- In 2019, Costco continued our programs to educate our employees on the importance of our Code through updated training and in-person seminars to review our Code requirements.

Confidential Ethics Hotline

We have a global confidential ethics hotline to promote and monitor compliance with our Code of Ethics, our Supplier Code of Conduct, and other legal and ethical policies: www.costco.ethicspoint.com



HUMAN TRAFFICKING

We recognize that human trafficking is a serious global problem and are taking steps to bring awareness and improvement to the issue. We also understand that sex trafficking (including the commercial exploitation of children), occurs in the hospitality industry and as such work with our Costco Travel suppliers to bring awareness to this issue. We also work with Truckers Against Trafficking to educate our fleet drivers, as well as other trucking service suppliers.

More information can be found in these statements:

[California Transparency in Supply Chain Act Disclosure](#)

[UK Transparency in Supply Chain Disclosure of the Modern Slavery Act](#)



Seafood

In 2019, a pilot program was initiated with over 10 recruitment agencies to certify compliance with the Seafood Task Force's policy on responsible recruitment.

Agriculture

Costco and some of its suppliers have begun to partner with CIERTO, an independent third-party nonprofit that provides transparent, no worker-fee recruitment for farm workers in order to ethically and legally recruit farm labor for U.S. agricultural products.

Foreign Labor

Costco supports the work of the Responsible Labor Initiative (RLI) to prevent unethical recruitment in Southeast Asia.

Agricultural Produce

Equitable Food Initiative (EFI)

Costco is part of a fresh produce multi-stakeholder effort – that includes farmers, suppliers, and NGOs to improve labor practices, environmental stewardship, and food safety – for the benefit of workers, agricultural communities, businesses, and consumers.

Costco pays a premium for this EFI-certified produce to directly compensate farmworkers for the extra effort they provide.

Through the EFI program, EFI provides:

- workers and managers with training in conflict-resolution and problem-solving strategies to promote continuous improvement and to comply with rigorous standards
- worker training about pesticide safety and personal protective equipment free of charge. More information can be found in Pollinator Health & Chemical Reduction section on our Environmental Impacts page.

Fair Trade

Costco and some of its produce suppliers continue to support a program with Fair Trade USA, which directly engages with farmworkers to promote sustainable incomes, safe working conditions, environmental stewardship, and strong, transparent supply chains. The Fair Trade model also empowers farmers and workers to fight poverty and to earn additional money with every sale to improve their communities. Through our direct engagement, farmworkers are provided with:

- Training on food safety and quality, labor rights, health and safety, and family financial planning.
- Improved communication and measurable impacts.
- Fair Trade premiums to help cover the worker's cost of living.

Ethical Charter on Responsible Labor Practices

Costco supports the efforts of the Produce Marketing Association and the United Fresh Produce Association to create an industry-wide framework on the responsible production and procurement of fresh fruit, vegetables and flowers. This mission is captured by the Ethical Charter, of which Costco is one of many endorsers representing the fresh produce industry that includes growers, labor agencies, packers, distributors, foodservice operators, marketers and retailers.

Cotton

Costco is a signatory to the multi-stakeholder pledge promoted by the Responsible Sourcing Network concerning forced child and adult labor in Uzbekistan. We work to keep cotton produced by child and adult forced labor in Uzbekistan and Turkmenistan out of our Kirkland Signature™ items. We also collaborate with a multi-stakeholder coalition to raise awareness of this very serious concern and to press for its elimination. More information can be found in our Pledge Concerning Cotton. In 2019, we began a cotton traceability mapping program to further understand where the cotton in our

CONFLICT MINERALS

In response to human rights abuses in parts of Africa, Costco has adopted a Conflict Minerals Policy Statement. More information can be found in our Form SD and Conflict Minerals Report.

Gold Jewelry Traceability

In FY 2019, Costco launched a category-specific traceability program with our gold jewelry suppliers to begin to learn where the gold in our jewelry comes from, with the goal that the gold in our jewelry will be responsibly and sustainably sourced.

Responsible Minerals Initiative

Costco is a member of the Responsible Minerals Initiative (RMI), which is a resource to help companies address responsible sourcing of minerals. Specifically, Costco utilizes the RMI's Conflict Minerals Reporting Template to trace the supply chain, and the RMI's Responsible Minerals Assurance Process and database to manage the conformant status of smelters and refiners in our supply chain that are likely to supply minerals of 3TG (tantalum, tin, tungsten and gold). Costco also leverages its membership in the RMI to attend their annual conference and Members Meeting, as well as their periodic plenary conference calls to discuss emerging issues and best practices on responsible mineral sourcing, and to work on addressing shared challenges.

apparel products originates.

Apparel from Bangladesh

On December 31, 2018, the Alliance for Bangladesh Worker Safety ("Alliance"), completed its term and ceased operation. The original mission of the Alliance was to substantially improve worker safety in the ready-made garment industry by upgrading factories, educating workers and management, empowering workers, and building institutions that can enforce and maintain safe working conditions throughout Bangladesh. Major improvements have been made at Alliance-affiliated factories, but more work is needed.

With the Alliance for Bangladesh Worker Safety winding down its operations, several former Alliance members and other brands committed to sustaining the culture of factory safety in Bangladesh have launched Nirapon, a locally managed organization tasked with overseeing the ongoing safety, training and helpline efforts of the factories from which Nirapon members source. Costco supports the work of Nirapon in addressing building safety in the apparel industry of Bangladesh.

We believe that multiple brands aligning behind one initiative, with one point of contact with factories, will reduce the burden and help to maintain focus on workers' rights to a safe workplace. We feel optimistic that this approach will help to maintain the significant safety enhancements made during the five-year commitment of the Alliance for Bangladesh Worker Safety.

Responsible Labor Initiative

Costco remains a member of the Responsible Labor Initiative (RLI), which primarily focuses on promoting the rights of workers vulnerable to forced labor globally. This initiative represents another opportunity for Costco to join a diverse network of stakeholders focused on combating forced labor in our supply chains. Through our work with the RLI, we will continue to focus on leveraging industry-based efforts to drive significant impact on the ground where our products are sourced.

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Animal welfare is part of Costco’s culture and responsibility, calling us to serve as stewards of the animals, land, and environment entrusted to the company. Costco is committed to a global approach to Animal Welfare and is working toward a uniform program in all countries/regions where it operates, while respecting that each country may have its own regulatory and social requirements in place. More information can be found in the examples of Recognized Global Standards.

Mission Statement

Costco Wholesale is committed to the welfare, and proper handling, of all animals that are used in the production of products sold at Costco.

This is a long-standing commitment. Costco pledges its diligence in working with industry and academia in the pursuit of new and improved technologies and methods to further enhance animal well-being.

This is not only the right thing to do; but it also is an important moral and ethical obligation we owe to our members, suppliers, and most of all to the animals we depend on for products sold at Costco.

Costco supports the Five Freedoms of Animal Well Being as guiding principles for its Animal Welfare policies. Originally articulated by a committee of the British government in the 1960s (the Brambell Committee), it has been more recently espoused by Dr. Temple Grandin, a recognized expert on animal welfare. The five freedoms are:

- Freedom from fear;
- Freedom from discomfort (right environment, shelter and a place to rest);
- Freedom from thirst and hunger;
- Freedom to exhibit natural behavior; and
- Freedom from pain and suffering.

COLLABORATION WITH EXPERTS & SUPPLIERS

In order to stay abreast of new technologies and methods and to try to harmonize various standards from around the world, Costco:

- Meets with experts from the fields of industry and academia to review, consult, and help implement our programs
- Participates in activities with organizations such as PAACO, American Humane Association, the National Pork Board, the American Dairy Science Association, the National Chicken Council and the Center for Food Integrity

ANIMAL WELFARE TASK FORCE

Costco’s Animal Welfare Task Force is made up of members from fresh meat buying, corporate and regional buying, animal welfare auditing, and global food safety. This past year the Animal Welfare Task Force worked on the following areas:

- Continuing to identify key global target goals and exploring practical implementation procedures through harmonization with global animal welfare laws and regulations
- Continuing to benchmark with other industry groups to review best practices
- Participating on the Coalition for Responsible Antibiotic Use being led by the Center for Food Integrity
- Reviewing each animal welfare incident involving any Costco supplier. Audits of these facilities are immediately conducted and all supplier corrective actions are reviewed by the Animal Welfare Task Force and actions are taken accordingly



CAGE-FREE EGGS

Costco is committed to procuring cage-free eggs and continues to increase the percentage of cage-free eggs its sells worldwide, as indicated below:

Cage-Free Eggs

FY	France, Iceland, Mexico, Spain & United Kingdom	United States	Australia	Canada	South Korea	Japan	China & Taiwan
2018	(Unreported)	89%	(Unreported)	(Unreported)	(Unreported)	(Unreported)	(Unreported)
2019	100%	94%*	74.2%*	22%*	9.3%*	1%*	In Process*

*In process and our progress is dependent upon local available infrastructure and appropriate

ANTIBIOTICS

Costco Wholesale's goal is to control the use of antibiotics medically important to humans in its meat and poultry supply chains, consistent with protecting the health and welfare of our members and of poultry, hogs and cattle in our supply chains. Our policy is to limit application of these antibiotics to therapeutic use for the prevention, control, and treatment of disease and not, for example, for purposes of growth promotion or feed efficiency, and only under the supervision of a licensed veterinarian in a valid Veterinary Client Patient Relationship.

In 2019, we began working with our suppliers and producers to develop and apply protocols for assessing compliance with this policy, which may include (by way of example):

- requiring the provision of certificates or affidavits by producers;
- reviewing audits commissioned by producers and suppliers;
- reviewing audits commissioned by Costco Wholesale; and
- testing products.

On or before December 2020, we will:

- Set a target date by which compliance with the policy will be mandatory and monitored.
- Assess the feasibility of eliminating the routine use of medically important antibiotics for prevention of disease among supplier farms.

Application of this policy will be guided by our interpretation of Food and Drug Administration Guidance 209 and 213 Veterinary Feed Directive, which discontinues the use of medically important antibiotics for growth promotion and requires veterinary oversight of all medically important antibiotics. Review the September 2019 Update here. As of December 15, 2019, according to Lincoln Premium Poultry none of the birds in the flocks that supply the LPP complex have been treated with antibiotics medically important to humans.

ANIMAL WELFARE AUDIT PROGRAM

Costco utilizes recognized audit standards and programs conducted by trained auditors and look at animal welfare both on the farm and at slaughter. The purpose of an audit is to gather current and accurate information concerning the overall welfare of animals.

This information is shared with members of the Costco food safety and technology group and buying staff. The audit results are used to determine what areas, if any, need improvement to meet the animal welfare criteria, for both existing and potential suppliers. The buying staff also uses this information to help make sound purchases for members.

Audits apply to:

- On-farm audits. These inspect the welfare of live animals on the farm in their living environment. Currently these are conducted for the following species: chicken (egg-laying hens); dairy cows; pork; poultry (chicken and turkey); and veal.
- Slaughter audits. These take place at the plant where animals are slaughtered and processed for these species: beef, pork, poultry (chicken and turkey), and veal.

Audits can be conducted by Costco auditors, suppliers, and/or third parties. Audit type, frequency and intensity can vary across suppliers and species. Costco requires all animal welfare auditors to be certified. This requirement applies to all species and all audits.

Organic certification in certain respects also includes animal welfare components. Costco sells large quantities of organic items derived from animal products, and these items are required to be certified organic in accordance with the law.



BEEF

food safety practices

In addition, Kirkland Signature™ Liquid Eggs are 100% cage-free. The transition to cage-free eggs will continue to increase with added availability and capacity of cage-free production.

POULTRY

- Costco requires animal welfare audits at slaughter in accordance with the National Chicken Council (NCC) Recommended Animal Handling Guidelines.
- Costco also audits hatchery and grow-out facilities.
- Costco implements animal welfare audits for laying hens.
 - Audits can include American Humane, Certified Humane and UEP Audits.
 - Audits now extend in varying degrees to conventional cage, cage-free and organic housing systems.
- Costco has introduced the Costco Hen House Audit in the U.S. This audit tool promotes a sense of responsibility and accountability to the supplier, and provides a means for annual barn evaluations.
 - Suppliers are required to audit each house twice a year using the Costco Hen House app platform. The results are automatically transmitted to Costco upon completion.
 - The app-based system gives pictorial examples for how to score each question when needed.
 - The app also requires the supplier to submit photo documentation for each question along with the answer when applicable.

OUR VERTICALLY INTEGRATED POULTRY FACILITY

In 2019, Costco began selling chicken produced in our new, vertically integrated facility located in Fremont, Nebraska, which is described in more detail in our Kirkland Signature™ pages. Animal welfare is a critical component that has been integrated into all aspects of the chicken supply chain, from the hatchery to the grower barns to the processing facility.

The design of the buildings, equipment and corresponding programs to handle the chickens had animal welfare as a key component and includes the following:

- The latest technology for poultry processing has been incorporated into the hatchery, feed mill and processing facility.
- The farmer-owned barns for the pullet, breeder and broiler chickens are state-of-the-art in design and equipment.

The animal handling processes also incorporate strict animal welfare programs and a summary of some of these policies include the following:

- Stocking density is limited to allow birds more space
- All barns have tunnel ventilation to improve bird air quality
- Apollo Gen 2 automatic harvesters are used to more humanely collect our broilers
- Broiler transport includes trailer curtains to keep animals sheltered
- Broilers are unloaded inside a lairage area, to protect them from the weather
- Lairage area can hold a 3-hour inventory to allow birds to rest
- State-of-the-art 5 stage Controlled Atmosphere Stunning (CAS) system



DOWN & FEATHERS

Costco has committed to responsible down sourcing. Costco now requires a certification to be present with all Costco production of down and feather products. Costco accepts certifications from IDFL (International Down and Feather Lab), Downpass or RDS (Responsible Down Standard).

Compliance to these standards ensures ethical sourcing of down and feathers through the verification of supplier traceability systems, general animal welfare, risk assessment and other important best practices.

- Costco requires animal welfare audits at slaughter in accordance with the American Meat Institute Recommended Animal Handling Guidelines.

DAIRY

- Costco requires animal welfare audits at the farm level. Costco works primarily with third-party audit providers; but continues to work with the Dairy Quality Center to implement second-party dairy audits. The mission of the Center is to establish a third-party veterinarian, outcome-based program that recognizes sustainable practices in place and guides change on the dairy through training, sound protocols, and a valid Veterinary Client Patient Relationship.
- Costco works with larger cooperative suppliers that utilize the FARM Program to increase the frequency of third-party verification. The National Dairy FARM Program (Farmers Assuring Responsible Management) seeks to provide consistency and uniformity to best practices in animal care and quality assurance in the dairy industry.
- Costco does not support tail docking and has actively sought to use suppliers who do not allow this practice. Current suppliers do not practice tail docking.
- Costco requires its suppliers to implement standards regarding age and pain management as it relates to dehorning practices.
- Costco strongly supports advances in dairy farming practices to include the use of genetic breeding programs to promote polled cattle (naturally hornless). Costco believes this will benefit the welfare of the cows and of the farmers who care for them by eliminating the need for dehorning. Costco recognizes that through the years its suppliers have embraced new ways to improve the welfare of the animals in their care. Costco expects suppliers to continue to seek improvements that promote good animal health and well-being.

VEAL

- Costco has a specific veal policy to promote calf welfare.
- All Costco veal is completely traceable to the farm level and all farms are 100% inspected for compliance to the requirements.



PORK

- Costco implements the Pork Quality Assurance Plus program. This is a producer-driven program that farmers can use to ensure that pork products are of the highest quality, are safe, and animals are cared for in a way that ensures their well-being.
- Costco has a Gestation Crate Policy that asks suppliers to phase out gestation crates for pregnant sows in favor of group housing. The goal is a complete transition by 2022. Approximately 80% of Costco's U.S. suppliers have completed this process, and many more will finish ahead of this target date.

Risk Factors

*Costco also recognizes that the subject of animal welfare is significant for a number of its members and investors. See below for full text

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*In addition to focusing on animal welfare because it is the right thing to do, Costco believes failure to do so would create risks for the business and its shareholders. Costco and businesses like Costco face risks relating to animal welfare in the supply chain. To address these risks, Costco has adopted measures to mitigate animal abuse problems and believe these are being dealt with appropriately. Nevertheless, issues will arise and Costco is committed to correcting problems it learns of. A significant percentage of Costco sales is from food, including food and sundries, fresh foods, service delis, and food courts. Key components of these categories are animal proteins, notably beef, chicken and eggs, pork, and lamb. The failure to provide adequately for the welfare of animals throughout Costco's supply chain could have significant adverse effects on the business and operations of the company and its investors. These effects could occur whether the abuse was to occur under the auspices of Costco's supplier of record or other points upstream in the supply chain. These abuses could take a variety of forms, including (without limitation) cruelty or mistreatment by employees, inhumane conditions of confinement, inappropriate use of animal controls or medications or antibiotics, and inadequate feed or water. Prevention of abuse can require extensive, complicated, and expensive controls and procedures. For example, in the context of poultry, standards can require, among other things, extensive animal rights training, regular extensive animal rights audits; alarm systems and generators in the hatcheries; sanitation procedures in the hatchery; temperature monitoring, housing, and ventilation standards; chick injury reporting, feed, and drinking programs; veterinary care; minimum cage space; and proper handling procedures in the plant. Different species have varying requirements to assure animal welfare. Controls and procedures designed to assure or improve animal welfare can lead to increased costs and lower supply or untimely supply of merchandise. It is possible that animal abuse could result in suppliers selling Costco items derived from those animals that are unsafe or otherwise unsuitable for consumption by members or their pets. Although Costco employs food safety testing systems designed to prevent the sale of such items, it cannot guarantee that those systems will always be effective. Selling unsafe products could result in illness or injury to members and their pets, harm Costco's reputation, and subject the company to litigation. If food and prepared food products for human and animal consumption do not meet or are perceived not to meet applicable safety standards or members' expectations regarding safety, Costco could experience lost sales, increased costs, and be exposed to legal and reputational risks. Costco suppliers are generally contractually required to comply with applicable product safety laws, and Costco is dependent on them to ensure that the products Costco buys complies with all safety standards. While Costco is subject to governmental inspection and regulations and works to comply with applicable laws and regulations, it cannot be sure that consumption or use of products will not cause a health-related illness or injury or that Costco will not be subject to claims, lawsuits, or government investigations relating to such matters resulting in costly product recalls and other liabilities that could adversely affect the business and results of operations. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that Costco products caused illness or injury could adversely affect its reputation with existing and potential members and the corporate and brand image, and these effects could be long term. Costco suppliers (and those they depend upon for materials and services) are subject to risks should they not assure animal welfare that could limit their ability to timely provide Costco with acceptable merchandise. For these or other reasons, one or more Costco suppliers might not adhere to its quality control, legal or regulatory standards. These deficiencies may delay or preclude delivery of merchandise to Costco and might not be identified before Costco sells such merchandise to members. This failure could lead to litigation and recalls, which could damage Costco's reputation and brands, increase costs, and otherwise adversely impact business. Costco and some of its suppliers and sub suppliers face pressure from animal rights groups to require conformity with standards developed or advocated by these groups. Failure to make the changes sought by these groups, whether or not Costco believes the changes to be desirable for animals or business, creates risk that Costco will be subject to pressures from these groups, including public campaigns that seek to damage the company in the eyes of members, investors, and the general public. These campaigns could cause Costco to incur higher costs to provide appropriate responses and also could divert management resources, to the detriment of the business. These groups may be able to coordinate their actions with other groups, threaten boycotts or enlist the support of well-known persons or organizations in order to seek to increase pressure to achieve their stated aims. Changing procedures and infrastructures to, in certain cases, conform to these guidelines or seeking to cause or suppliers and/or sub suppliers to change procedures and infrastructures can result in additional costs for Costco suppliers and the costs of items that Costco purchases. Campaigns and publicity concerning animal abuse, whether in the company's supply chain or elsewhere, also could lead to legal and regulatory changes that impose more stringent requirements concerning animal welfare, which could have the effect of reducing available supply and raising prices, increasing costs for Costco. While Costco may pass some of the increased costs on to members, there is no assurance that Costco can do so and profitability could suffer accordingly. Individuals or organizations can use social media platforms to publicize inappropriate or inaccurate stories or perceptions about the food production industry or Costco. Such practices could cause damage to the reputations of Costco or the food production industry in general. Animal welfare abuses in our supply chain could lead to individuals choosing not to become Costco members and to current members canceling their

membership or purchasing less merchandise, adversely affecting revenue. All of the factors above arising out of the failure to assure animal welfare in the supply chain, singly or potentially in combination, could adversely affect Costco's business, financial condition and results of operation.

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Costco's Chemical Management Policy helps to protect the health and safety of our members and the environment by establishing and developing products and processes that are safer, healthier, and more sustainable. We strive to go beyond the boundaries of regulatory compliance, in an effort to reduce or remove potential chemical harm to humans and to the environment. We recognize that this will be an area of continuous improvement for us as new rules, regulations and testing protocols are introduced.

Costco will continue to provide guidance for preferred chemical choices by product category through collaboration with its suppliers. We encourage suppliers to understand which chemicals are used in their products in order to:

- **identify chemicals of concern (utilizing comprehensive testing programs);**
- **remove or apply the process of informed substitution for any identified chemicals of concern;**
- **identify ways to change their manufacturing processes to reduce hazardous chemical use; and**
- **review and attain qualified third-party green certifications.**



CHEMICAL TESTING

Costco tests many different consumer product categories worldwide for the chemicals regulated in the countries where we do business.

- Examples of product categories tested include toys and other products intended for children, food use, furniture, electrical, apparel, and home textiles.
- Examples of regulated chemicals include soluble heavy metals, heavy metals found in surface coating, Substance of Very High Concern (SVHCs), formaldehyde, flame retardants, dyes, phthalates, BPA and many others.
- Costco continually reviews and updates the Global Costco Restricted Substance List (RSL) to keep up with the ever-growing global regulatory chemical restrictions in consumer products.



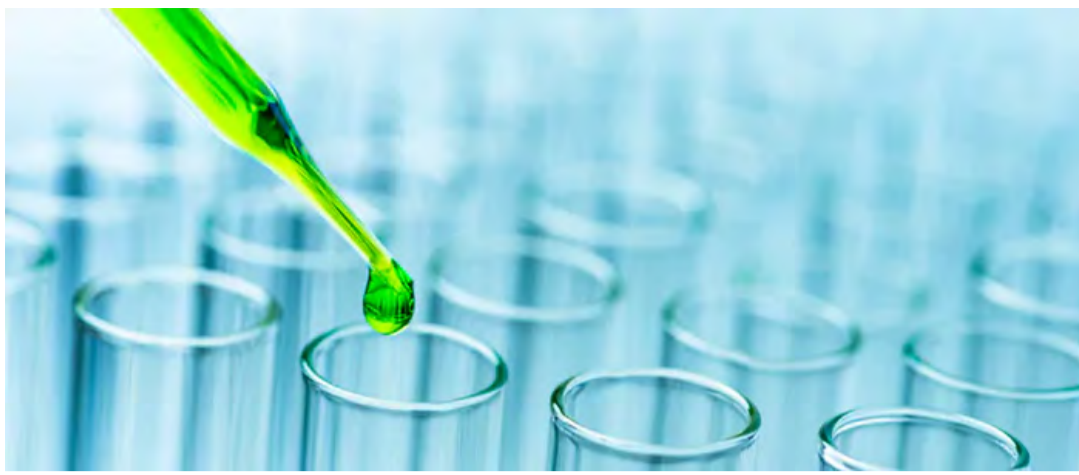
TEXTILES

The Costco Smart Screening Program also includes textiles. This portion of the testing program is based on the Apparel and Footwear International RSL Management (AFIRM) Working Group. The AFIRM Restricted Substance List (RSL) has been adopted with third-party testing labs testing Costco's textile and footwear products. Examples of products tested include apparel and footwear, sporting goods, luggage, handbags, and home textiles like blankets, sheets, rugs, and towels. More information can be found at the [AFIRM website](#).

Costco encourages its textile suppliers to implement in their supply chains the Zero Discharge of Hazardous Chemicals (ZDHC) Manufacturing Restricted Substance List (MRSL). More information can be found at this [site](#).

Costco recognizes and accepts third-party certifications into its Smart Screening Program, which aim to provide safe, traceable and sustainable products. These include:

- The STANDARD 100 by OEKO-TEX program is designed to protect consumer and environmental health by removing chemicals of concern (COCs) from products and their components. The STANDARD 100 by OEKO-TEX® is an independent verification that products have been



COSTCO SMART SCREENING PROGRAM

Besides testing per regulatory requirements, Costco works with major third-party laboratories to identify and reduce chemicals of concern in different product categories, which we call the Costco Smart Screening Program. In September 2017 Costco established a Green Chemistry management team in partnership with the Berkeley Center for Green Chemistry at the [University of California at Berkeley](#). This partnership helped to guide Costco's strategic plan for managing chemicals of concern within its supply chain. Under this program:

- Many products in numerous categories are tested. Examples include: children's and adult apparel, bedding, home textiles, pet beds, furniture, luggage, handbags, sporting goods, personal care products, cleaning products, Kirkland Signature™ food packaging, non-foods packaging, Kirkland Signature Baby Wipes, and Kirkland Signature Diapers.
- We work with the chemical and consumer products industries to increase our understanding and to find more environmentally friendly alternatives for chemicals and practices of concern.
- Costco audits product specifications for many products provided by suppliers and physically tests these products. This program utilizes independent third parties to pull samples of consumer goods during Costco production to conduct analytical tests for both regulated chemicals and chemicals of concern (COCs) that are not restricted by law.
- The Costco Smart Screening protocols are used to perform physical testing against a list of over 300 COCs, including those from the EU REACH Substances of Very High Concern (SVHC) program, and the U.S. Toxic Substances Control Act (TSCA). These items also are tested against the State of California Proposition 65 list of chemicals of concern.
- Costco partners with its suppliers to review results and help them find qualified resources to assist in removing chemicals of concern from their items. The Costco Smart Screening Program also provides information for suppliers to use to develop safe replacement chemicals and processes within [The Smart Screening User Guide](#). Examples* of common chemicals of concern:
 - Alkylphenol & Alkylphenol Ethoxylates
 - Azo Dyes (24 Amines)
 - Bisphenol A & Bisphenol S (BPA, BPS)
 - Blue Colorants
 - Carcinogenic & Allergic Disperse
 - Chlorinated paraffins (C10-C13) (SCCP)
 - Chlorinated paraffins (C14-C17) (MCCP)
 - Chromium VI (Cr VI) content
 - Dyes And Other Dyes (29 Dyes)
 - Extractable Heavy Metals
 - Flame Retardants
 - Formaldehyde
 - Hexavalent Chromium Polychlorinated Biphenyls (PCB)
 - Nickel (Ni) release
 - Organotin Compounds
 - Per and Polyfluoroalkyl Substances (PFAs/PFOAs)
 - Phthalates
 - Polychlorinated Biphenyls (PCB)
 - Polychlorinated Phenols
 - Polycyclic Aromatic Hydrocarbons (PAHs)

tested for harmful substances. More information can be found at the [OEKO-TEX® Standard](#) website.

- The LEATHER STANDARD by OEKO-TEX® is an internationally standardized testing and certification system for leather and leather goods at all production levels, including accessory materials. More information can be found on the [OEKO-TEX® Leather](#) website.
- The Blue Way by BLUESIGN® represents the vision and mindset of responsible and sustainable manufacturing of textile consumer products. More information can be found at the [BLUESIGN](#) website



PACKAGING AND FOOD SERVICE SUPPLIES

The labeling and packaging of Costco items are tested for chemicals of concern as follows:

- Products that are part of the Costco Smart Screening Program use the AFIRM Group packaging RSL. Examples of packaging components include paper, wood, cartons, stickers, plastic wrap, finishing dyes, inks, coatings, metal, tape, textiles and desiccants. More information can be found on the [AFIRM website](#).
- Labeling and packaging for Kirkland Signature™ foods items also are required to participate in the Costco Smart Screening Program.
- Additionally, for products not participating in the Costco Smart Screening Program, many are still tested to meet U.S. and EU heavy metal testing requirements.
- Food contact materials and containers sold in the Costco meat department, bakery, deli and food court are tested with the Costco Smart Screening Program. Examples of this type of packaging include meat trays, bakery containers, deli tins, and pizza boxes. Additional supplies used in these departments such as hair nets, food wrap and gloves are also tested.



CHEMICALS USED IN AGRICULTURE & HORTICULTURE

Costco is also concerned about the chemicals applied to live goods/plants, fruit and vegetables, and we have recently updated our [Pollinator Health Policy](#) to address this topic.

- We encourage suppliers to limit the use of all non-essential chemicals, to utilize eco-friendly methods of pest and disease control, and to incorporate Integrated Pest Management (IPM) strategies and other creative solutions that use the least toxic alternatives.
- Suppliers are encouraged to phase out the use of neonicotinoids and chlorpyrifos, unless otherwise mandated by law and when necessary to avoid regrettable substitutions.
- Costco seeks to partner with suppliers that share our commitment to pollinator health and IPM, and are making reasonable progress in a timely manner. Sixteen Costco suppliers are certified by EFI, which

- Tin-screening test for organotins
- Total Cadmium (Cd) content
- Total Lead (Pb) content (substrate and surface coatings)
- Total Mercury (Hg) content
- Volatile Organic compounds (VOCs)

* This list is not all-inclusive

Suppliers of Non-foods Kirkland Signature™ products are required to provide Costco ingredients on packaging, on their website, or with a third-party chemical management tool.

- Suppliers of Non-foods branded products are encouraged to provide to Costco ingredients on packaging, on their website, or with a third-party chemical management tool.
- Costco trains its buyers and suppliers worldwide on the process, expectations, and their progress for the packaging and the product.
- In fiscal year 2018 we performed over 5,000 individual product tests and when chemicals of concern were identified, we worked with our suppliers to either remove or reduce these chemicals.

requires an IPM Plan, Pesticide Reduction Tool and other pesticide related requirements. More information can be found in the Pollinator Health & Chemical Reduction section.



KIRKLAND SIGNATURE CLEANING AND BEAUTY AID FORMULATED PRODUCTS

Costco utilizes third-party testing and data platforms to gather product ingredients bill of substances (BOS) of cleaning products and health and beauty products. These products are screened against the Costco Smart Screening Program list and other regulated chemical lists. When chemicals of concern are identified, suppliers are encouraged to utilize toxicologists to identify preferred alternatives.

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The two primary objectives of our seafood sourcing policy are:

- Continually source sustainable seafood products from either wild fisheries or farmed aquaculture in ways that meet current demands without compromising the availability of scarce resources for future generations.
- Consider these factors when sourcing seafood: the condition of fish stocks (biomass); the protection of and respect for the marine, coastal, and freshwater ecosystems; governmental and regulatory agency guidelines; and practices that will mitigate or limit environmental impacts associated with aquaculture and fishing practices. As science and industry evolve, we will continue to refine these global policies.



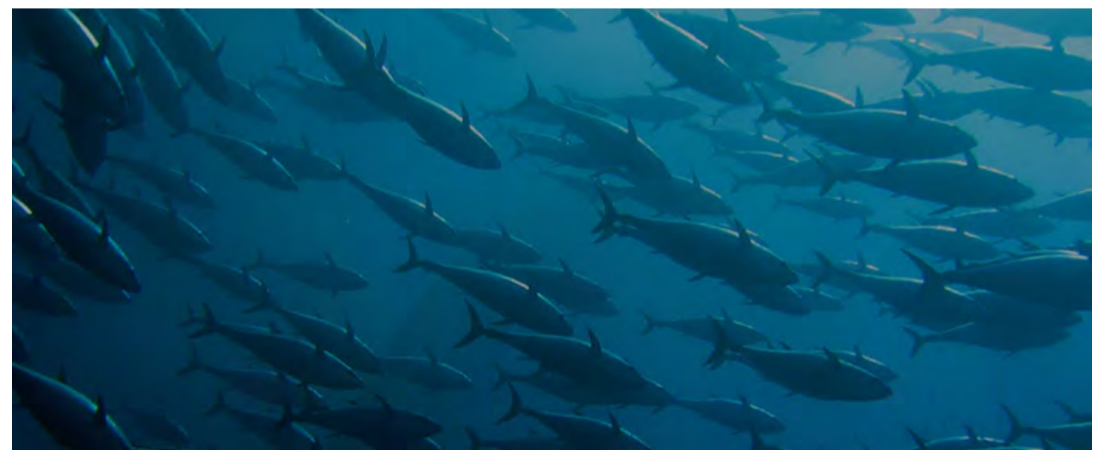
WILD SPECIES

We do not sell certain wild species that have been identified at great risk, unless our sources are certified by the [Marine Stewardship Council \(MSC\)](#). Currently, those species are:

- Atlantic cod
- Atlantic halibut
- Chilean sea bass
- Greenland halibut
- Grouper (*Epinephelus morio*)
- Orange roughy
- Redfish (sourced outside of U.S. Fisheries)
- Shark
- Skates and rays
- Swordfish (sourced outside of U.S. Fisheries)
- Bluefin tuna

If we decide in the future to rely on other certifying organizations and/or other credible sources that report on the status of these or other species relative to their sale, we will disclose their identity and disclose that certification and/or verification on the packaging.

We continue to examine whether there are other species that we should cease to sell because of documented concerns of risk for the species or habitat. Beginning with the 2019 fishing season and until further notice, we will not sell Wild King Salmon (also known as Chinook Salmon) sourced from the Salish Sea (formerly known as Puget Sound), due to documented



CANNED TUNA

Our major canned tuna suppliers are participants in the [International Seafood Sustainability Foundation](#), which is undertaking science-based initiatives for the long-term conservation and sustainable use of tuna stocks, reducing bycatch and promoting ecosystem health.



AQUACULTURE

We believe that farmed seafood should be an integral part of our business, that aquaculture is a critical source of affordable protein now and in the future, and that farming can be done in a sustainable, responsible manner with reduced impacts on the environment and local communities.

Farmed Shrimp

Costco has been an active participant in the implementation of the [Aquaculture Stewardship Council \(ASC\)](#) shrimp standards from the early stages. These global, performance-based standards help to minimize key

concerns related to its decline.



FISHERY IMPROVEMENT PROJECTS

Fishery Improvement Projects (FIPs) are alliances of stakeholders – retailers, processors, suppliers, producers and/or catchers, government, NGOs, and academia – that work to resolve aspects of the fishery that do not currently meet the MSC standard. The FIP process works through the stakeholders to:

- Discuss management of the fishery and the challenges that it may face
- Agree on a set of actions that should be undertaken to improve the fishery so it can meet the MSC standard
- Work collaboratively to implement the actions and track progress

For fisheries that do not currently meet the MSC standard, we encourage industry members to participate in FIPs. Costco supports FIPs through participation in FIP meetings, letters to governments and/or fisheries participants, and financial contributions. Fisheries and industry members that are actively engaged in making continued progress in a FIP and demonstrate good management through the supply chain receive strong consideration in our purchasing decisions.

Costco Supported FIPs

Costco works directly with the World Wildlife Fund (WWF) to support the following FIPs:

- [Spiny Lobster - Honduras](#)
- [Spiny Lobster - Nicaragua](#)
- [Spiny Lobster - Brazil](#)
- [Mahi Mahi - Peru](#)
- [Mahi Mahi - Taiwan](#)
- [Large Pelagics \(mahi, swordfish, yellowfin tuna\) - Costa Rica](#)
- [Tuna- Vietnam](#)
- [Tuna- Philippines](#)
- [Tuna - Sri Lanka](#)
- [Vietnam blue swimming crab](#)
- [Thailand blue swimming crab](#)

Costco or Costco suppliers also purchase product from these FIP fisheries. Over time our sourcing from individual FIPs will vary, depending on market conditions and other factors.

Costco is also engaging the Octopus fisheries in Morocco and the Philippines to hopefully transition them to a FIP.

Fishery Success Stories

negative environmental and social impacts of shrimp farming. Our goal ultimately is to source farmed shrimp only from farms and suppliers that have been certified under ASC standards. This goal has been partially achieved and we are actively engaging to transition more shrimp farms to reach the ASC standard by working with our suppliers and World Wildlife Fund to develop and implement Aquaculture Improvement Projects (AIPs).

Costco is also a founding member of the [Seafood Task Force](#), which aims to drive greater business confidence for global seafood buyers purchasing from Asia by tackling illegal, unreported, and unregulated (IUU) fishing, establishing supply chain oversight from vessel to plate, mitigating risk, assuring traceability, and improving social and environmental performance – step by step.

Recent development in Thailand are represented in the following articles:

- [Fisheries Reforms that has resulted in a Green Card from the EU](#)
- [Securing Labor Rights through Social Compliance](#)

Farmed Salmon

We are working with our suppliers to implement the ASC salmon standard representing years of collaboration among the industry, its customers and nongovernmental organizations. Our goal is to source farmed salmon only from farms and suppliers that have been certified by the ASC standard. This goal has been partially achieved, and we are actively engaging to transition more salmon farms to reach the ASC standard by working with our suppliers and the World Wildlife Fund to develop and implement Aquaculture Improvement Projects (AIPs). AIPs in Chile have focused on key issues such as empowering local communities in salmon farming areas to better engage with companies on issues that impact them.

Costco does not intend to sell genetically modified salmon.

Pangasius

We are also working with our suppliers concerning implementation of the ASC Pangasius Standard. Our goal is to source pangasius only from farms and suppliers that have been certified under the ASC standards. This goal has been largely achieved.

Tilapia

A five-year effort led to the development of the ASC tilapia standard completed in 2009. Currently, all tilapia sold at Costco is from farms and suppliers that are ASC certified. One of our suppliers is Regal Springs. Click [here](#) for information related to [Regal Springs](#) and their sustainability efforts. More information can be found in our [Costco Connection](#) [article](#).



Bahama Spiny Lobster

In 2018, through the hard work of our lobster suppliers, the Bahama spiny lobster fishery was certified by the Marine Stewardship Council (MSC) to meet its standards. More information can be found on this [FIP success story video](#).

Ecuadorian Mahi-Mahi

In 2019, the Ecuadorian Mahi-Mahi transitioned from a FIP, as it entered MSC full assessment [Mahi Mahi - Ecuador](#).

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Costco understands that it has a responsibility to source its products in a way that is respectful to the environment and to the people associated with that environment. Our goal is to help provide a net positive impact for communities in commodity-producing landscapes, by doing our part to help reduce the loss of natural forests and other natural ecosystems, which include native and/or intact grasslands, peatlands, savannahs, and wetlands. (collectively referred to as “natural ecosystems”).

We want to work with suppliers and others to support good land stewardship practices that also respect the autonomy and property rights of the landowner; are outcome-based rather than prescriptive; and respect the ability of rural people and their communities to thrive while serving as stewards of the land. Good land stewardship practices include, but are not limited to:

- avoiding deforestation and conversion of natural ecosystems;
- conserving or restoring natural ecosystems;
- protecting High Conservation Value (HCV) and High Carbon Stock (HCS) forests;
- ensuring free, prior and informed consent of indigenous people;
- respecting basic human rights;
- avoiding pollution;
- protecting water resources;
- protecting from harmful chemicals;
- protecting, restoring, and promoting soil health; and
- supporting the increased healthy production-efficiency of lands currently in production.

We understand there are many differing perspectives on how to best protect these natural ecosystems; plus they are complex, with many stakeholders of varying cultures, viewpoints and land conservation practices. It will take a phased approach of continuous improvement over time to reach these goals. We cannot do this alone and will depend upon the insight, experience and wisdom of our suppliers and others. We also acknowledge that as we learn more, our goals may change.

Below are some examples of our current initiatives:



PALM OIL

Palm Oil Policy



POLLINATOR HEALTH & CHEMICAL REDUCTION

Pollinator health is a complex issue, which we are addressing in numerous ways. We understand that the honeybee population is declining due to pests, pathogens, pesticides, and poor nutrition. These bees are necessary for approximately one-third of the pollination of the food we consume, including many fruits, nuts and vegetables. More information can be found in our 2019 July Costco Connection article [Honeybee Health](#).

Research Support

We have invested over \$4 million for honey bee research with Project Apis m.. More information, can be found at the [Kirkland Signature™ Honey](#) section.

Pollinator Friendly Agricultural Practices

We work with our fresh produce and almond suppliers to encourage the planting of buffer zones to benefit pollinators. We also encourage almond growers to use cover crops to increase the density, diversity and duration of bee forage in California orchards, while also improving soil health.

The seed mixes available through the [Seeds for Bees](#) program of Project Apis m. that we support are designed to bloom at critical times of the year when natural forage is scarce, but when managed and native bees are active. Seeds for Bees serves the needs of beekeepers and growers while increasing sustainability and biodiversity.

In 2019, Seeds for Bees also developed a Western monarch habitat seed mix to address the dwindling Western Monarch Butterfly population.

Chemical Use Reduction

Pollinator Health Policy

The scope of our Pollinator Health policy includes suppliers of live goods (garden plants), fruit and vegetables. Costco encourages them to limit the

Costco is a member of the Roundtable on Sustainable Palm Oil (RSPO) and is committed to ensuring that the palm oil contained in Kirkland Signature™ products is responsibly and sustainably sourced.

Our goal is that all palm oil used in Kirkland Signature products will be 100% RSPO certified (or equivalent) by 2021 or sooner. We continue to work with suppliers to meet this goal and our progress is as follows:

Reporting Year*	RSPO Certified - Physical Palm Oil**	RSPO Certified**
2017	46%	51%
2018	77%	82%
2019	94%	96%

More information can be found in our [Palm Oil Policy](#) and the Annual Communication of Progress (ACOP) 2019 filed with [RSPO](#).

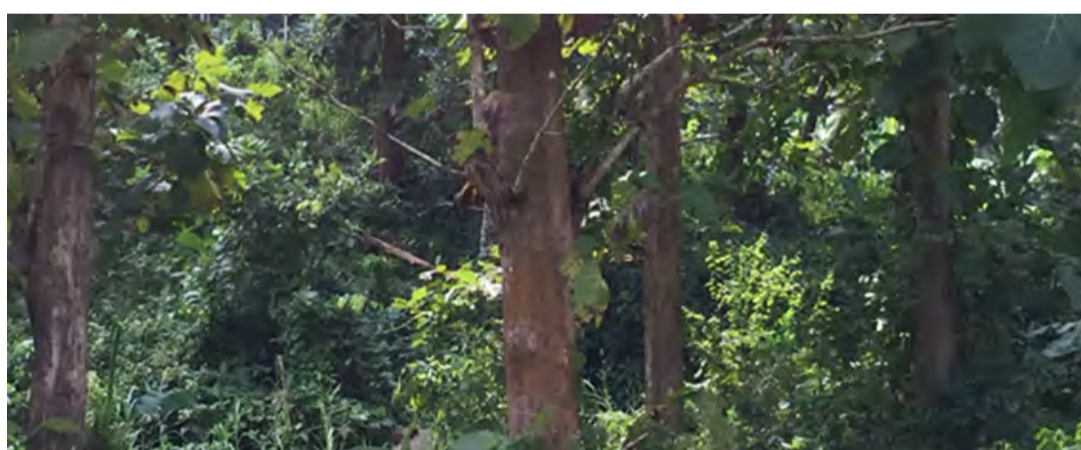
*Per RSPO reporting requirements, the reporting/calendar year represents that year's data, which is reported in May of the following year. For example, in May of 2020, we reported 2019 calendar year data.

**"Physical Palm Oil" comes from supply chains that are Identity Preserved, Segregated, or Mass Balance, whereas "RSPO Certified" may include the Book and Claim System.

Collaboration and Smallholder Engagement

In 2017, Costco completed a 14-month partnership project with IDH Sustainable Trade Initiative, Winrock International and Cargill to develop a draft Protocol for Oil Palm Independent Smallholders for Sustainable and Responsible Management of Peat Areas.

In 2016, Winrock led a series of meetings and workshops with smallholders, government representatives, researchers, NGOs and other stakeholders to develop a draft protocol that sets forth a step-by-step program to manage peatlands in a sustainable manner, increase market access for smallholders and reduce greenhouse gas emissions. It was field-tested with collectors, palm mills and farmers in Siak Regency, Riau Province, Indonesia. With their input it was further revised and then presented at a national seminar for additional feedback and dissemination of information. Now it is being shared with other organizations to promote implementation and alignment. The goal is to make it available to all stakeholders to serve as a sustainable guideline for smallholders to preserve peat areas.



WOOD, PAPER & FIBER-BASED PRODUCTS

We believe that our most impactful first steps to help support good forest stewardship practices and to protect forests, are to (1) source our wood, paper, and fiber-based products from responsibly managed and certified forests, and (2) use recycled content and/or alternative fibers when feasible.

Costco currently accepts forest management certifications from three leading organizations: Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) or Programme for the Endorsement of Forest Certification (PEFC), with a preference for FSC. The certification is

use of all non-essential chemicals, to utilize eco-friendly methods of pest and disease control, and to incorporate Integrated Pest Management (IPM) strategies and other creative solutions for the use of least toxic alternatives. Suppliers are encouraged to phase out the use of neonicotinoids and chlorpyrifos, unless mandated otherwise by law and when possible to avoid regrettable substitutions. Costco seeks to partner with suppliers that share our commitment to pollinator health and IPM, and make reasonable progress in a timely manner.

Equitable Food Initiative (EFI)

Costco is part of a fresh produce multi-stakeholder effort – that includes farmers, suppliers, and NGOs to improve labor practices, environmental stewardship, and food safety – for the benefit of workers, agricultural communities, businesses, and consumers. More information can be found on the [EFI website](#) and in our [Human Rights](#) page.

As of November 2019, 16 Costco suppliers are partnering with EFI on 33 certified operations employing nearly 30,000 workers. In addition to labor and food safety standards, certification also includes:

- An implemented [Integrated Pest Management \(IPM\)](#) plan that includes a stepped approach starting with biological controls followed by cultural, physical, and finally chemical responses
- Application records for all conventional and open fields operations to be entered into the [Pesticide Reduction Tool \(PRT\)](#) in order to generate a risk assessment that can inform spray decisions. EFI is in year one of a five-year partnership with [The IPM Institute of North America](#) to aggregate and analyze pesticide application records entered into the PRT.
- A written justification for each application of a highly hazardous pesticide, aligned with their IPM plan and documenting that risk management measures were implemented during application
- Irrigation practices that limit erosion, and uncultivated buffer strips to further protect water habitats
- Worker training for appropriate pesticide use, which also prohibits off-label pesticide use; providing to all workers personal protective equipment (PPE) free of charge; reporting to EFI leadership the name, date, and location of all applications; and medical monitoring of workers handling organophosphate or carbamate pesticides.

Expanded Product Selection

Costco now sells a number of organic and alternative gardening products, which contain natural and/or organic elements. In 2019, we made the decision to no longer offer for sale products containing glyphosate in any of our locations worldwide.

In 2019 we continued to sell Mason Bee Houses that support these native pollinators, allowing our members an opportunity to also support pollinator health in their own home garden areas.

We also continue to expand our selection of organic products and have increased products grown in greenhouses, which in turn supports pollinator health.



ORGANICS

Organic farming contributes to healthy land stewardship. Costco's selection of organic products continues to grow worldwide to meet members'

dependent upon numerous factors, some of which include the current available supply for each product, the geographic origin of the product and the country where the product is produced. These certifications help to ensure that the needs of the forest ecosystems and their communities are balanced with conservation of our forests for future generations.

Wood Products

After a 10-year moratorium on teak, in 2015 we began selling a limited amount of outdoor teak furniture that was 100% (FSC) certified. Today, all teak sold at Costco is 100% FSC-certified.

Costco has expanded FSC certification to other species of solid wood products, including FSC-certified cedar wood playsets, gazebos, bee houses, outdoor furniture, and pavillions.

Paper Products

Our goal is to have our paper products certified from well-managed forests. Many have been certified for some time and others are converting. Some examples include:

- The *Costco Connection* magazine, which includes all of our global editions, and Multi Vendor Mailers are certified either FSC, PEFC or SFI.
- In 2019, we completed the conversion of Kirkland Signature™ Bath Tissue, Facial Tissue, Paper Towels and Napkins sold worldwide to certified programs of the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) or Programme for the Endorsement of Forest Certification (PEFC). More information can be found on the Kirkland Signature page.
- We are converting our receipt register tape to FSC and as of 2019, the receipt register tape used in some gas stations and sold by Business Delivery is certified.
In addition, as of September 2019, all U.S. and Canadian locations have converted to BPA-/BPS-free register tape inside the buildings and are in the process of converting the register tape at the gas station pumps.
- We continue to offer more recycled content products, compostable content products, and recycled content packaging of paper goods at Costco Business Centers and online Business Delivery.
- 100% of Kirkland Signature Parchment Paper sold worldwide is FSC certified.
- 100% of Kirkland Signature Gift Wrapping Paper sold worldwide is FSC certified.

Fiber-based Packaging

Our packaging goals are to reduce the amount of packaging, while still protecting the product's integrity. Fiber for paper-based packaging should come from known sources, should be procured legally and should not contribute to deforestation. Because there is a limited supply of certified fiber, we highly encourage the use of recycled content whenever possible.

In 2019, our ecommerce shipping boxes for Costco-fulfilled items for the U.S. from Costco.com were converted to boxes made from 100% recycled content and are themselves fully recyclable.

More information can be found at the [Packaging](#) section.

demands. Examples include fruit, vegetables, meat, eggs, cheese, milk, butter, grains, nuts, coffee, tea, juice, wine, beer, spices, oils, sauces and snacks. Some are local to the individual geographic region and others are offered worldwide.

We have many excellent suppliers that help us grow and expand our organic offerings. One example is Earthbound Farms that grows various produce items using field practices to support soil health, promote natural pest management and weed control, and improve food safety. Where it makes sense we work with suppliers and growers to support the conversion of conventional supplies to organic.

A key component of the sustainable growth of protein organics, such as eggs, chicken, beef, pork, etc., is organic feed. Costco works with its suppliers and their feed suppliers to learn the impact that this growing demand for feed has on farmers' future security, yields and income.



GREENHOUSE GROWN

Greenhouses are another form of sustainable agriculture that we are exploring with our suppliers. In 2019, Costco began to sell romaine lettuce grown in a California greenhouse. More information can be found in the Kirkland Signature™ section. This greenhouse is certified organic and its 12-acre growing site produces the equivalent of 150 planted field acres, which is a reduction in land use. In addition, there will be 0% of water runoff and minimal to 0% of erosion due to no-tillage.

Another example is Windset Farms that grows tomatoes, cucumbers and peppers in greenhouses through sustainable practices that include water and energy conservation, the use of renewable energy, and recyclable packaging.



PROTEIN AND PLANT-BASED ALTERNATIVES

Sustainable Beef Production

Costco recognizes that beef production has an impact on the environment and depending upon the beef production practices employed, the impact may be negative, positive, or somewhere inbetween. As stated above, Costco encourages suppliers to support good land stewardship practices. There are concerns that beef production contributes to deforestation and we currently do not source any of our fresh beef from Brazil.

Costco is a member of the [U.S.](#) and [Canadian](#) Roundtables for Sustainable Beef, with a mission to advance, support and communicate continuous improvement in the sustainability of U.S. and Canadian beef production by educating and engaging the beef value-chain through a collaborative multi-stakeholder effort.



COCOA

The majority of our Kirkland Signature™ chocolate products are made from cocoa sourced through sustainable programs, including the Sassandra Cocoa program, which has implemented the following programs to reduce the risk of deforestation:

- 1.1 million hybrid high-yielding cocoa seedlings have been distributed, enabling 2,100 farmers to replant a total of 1,100 hectares.
- 28,000 *Gliricidia* cuttings and 15,000 forest trees have been distributed to provide a natural source of nitrogen and serve as shade trees, respectively.
- In the 2018 - 19 season, farmers were given a choice of 10 varieties of native forest/fruit tree saplings to plant and 67,605 saplings were distributed.
- 9,750 farmers have been trained in pre/post-harvest techniques and integrated pest management (IPM) to improve yields and quality on currently cultivated land.

More information can be found at the [Kirkland Signature Cocoa](#) section.

Costco, in partnership with others in the U.S., is exploring how it can support ranchers to evaluate their management practices with key indicators linked to economic, social, livestock and environmental outcomes.

Beef and the Preservation of Native Grasslands

Costco also recognizes that beef production can be linked to the preservation of native grasslands in places like the Northern Great Plains of the U.S. (NGP), where the intact grassland ecosystem is compatible with responsible cattle grazing.

Costco is partnering with WWF and others to help protect the NGP intact grassland ecosystem and to test the U.S. Roundtable for Sustainable Beef's (USRSB) sustainability framework to ensure it is useful and practical for cow-calf producers in the NGP.

Responsible grazing maintains the health of grasslands, improves soil quality with manure, and preserves open space and wildlife habitat. Additionally, carbon is sequestered in the grasses and soils of grazing lands that are properly managed. Beef production also provides social benefits by sustaining livelihoods and community vibrancy in rural areas where grasslands dominate. Keeping NGP as grasslands not only helps conserve biodiversity, but it also means cleaner streams, less fertilizer runoff, more pollinators for plants and more carbon stored in the soil.

Plant-based Alternatives

Finally, Costco continues to grow its selection of plant-based proteins as an alternative protein offering to its members.



FRESH CUT ROSES

Most of the cut rose heads sold by Costco are sourced from Colombia and Ecuador and are certified by the [Rainforest Alliance](#). This means that these roses are traceable to the farm and these certified suppliers meet standards that:

- protect ecosystems, wildlife habitats and pollinator health;
- conserve water and soil;
- promote decent and safe working conditions;
- ensure that the farms are good neighbors to rural communities and wildlands; and
- mitigate and adapt their business to climate change.

These suppliers also support their local communities through scholarship programs and childcare centers.



We acknowledge packaging is an area of our business where continuous improvement is needed. Current packaging options, new rules and regulations, and innovation in the packaging industry keep this a dynamic area of change for us.

We also know this is a complex aspect of our business that has many components, including concerns about the increase of plastic waste in landfills and the oceans, the need for more uniform waste collection programs, the need to increase the recycling infrastructure, the diversity and fragmentation of laws and regulations, and the shortage of viable alternatives that meet our needs. It will take time and the cooperation of many – including our suppliers, members, the packaging industry, municipal services, and governments – working together to come up with solutions.

We also realize the trade-offs, and we attempt to balance them and come up with solutions that have an overall positive impact.

Given these challenges, in 2019 we deepened our focus on packaging and are developing a global packaging and plastic plan that addresses many aspects of our business, which is outlined below.

PACKAGING GOALS

- Reduce our operational packaging waste by improving our efficiencies, with the added benefit of reducing expenses
- Provide sustainable packaging to our members without compromising food safety, product quality or sales while ensuring our packaging: (1) complies with laws and regulations, (2) reduces materials, and (3) communicates effectively with our members.

PACKAGING PLAN

- Adopt global packaging, recycling and waste strategies for both operations and merchandising
- Create internal systems to track and monitor our operational packaging waste and packaging footprint
- Explore partnerships to support innovations for packaging and packaging waste

FOUR PACKAGING STRATEGIES

- Reduce the amount of packaging overall
- Increase the recycled content and certified fiber in all packaging
- Increase the recyclability and compostability of all packaging
- Educate and learn from employees, suppliers and members the importance of sustainable packaging and recycling

Below, we share how we have begun to implement our four packaging strategies in 2019

3 INCREASE THE RECYCLABILITY AND COMPOSTABILITY OF ALL PACKAGING

Polystyrene Replacement

Recyclability and compostability can be increased through the elimination of polystyrene (commonly known as Styrofoam®). This has been a long-term effort that includes:

- Costco has made a 10-year effort to eliminate expanded polystyrene from inner packing materials and replace it with recyclable or compostable fiber-based options. This continues to be a focus area.
- Costco switched the fresh chicken packaging from polystyrene trays to saddle-pack bags. This solution uses less plastic and allows more efficient packaging.

Recyclability

Recyclability is complicated. To be considered “recyclable,” various rules, regulations, and guidelines require the product be “widely recyclable,” meaning at least 60% (or more depending upon the geographic area) of the population has access to recycle the packaging. We also recognize widely recyclable packaging is dependent upon the availability of recycling infrastructure streams, which are inconsistent. This underscores the need for a multifaceted approach to recyclability.

We are starting where we can directly make an impact and, as of 2019, the following are some examples of our improvements in recyclability:

- In Korea, we changed fresh meat trays to meet local recyclability standards.



- In Canada, we changed fresh deli containers from black plastic to clear plastic to meet local recyclability standards.

Costco currently uses clamshell packaging for some of its fresh bakery and fresh produce items. These clamshells reduce food waste by providing longer shelf life and easier storage. While this packaging is made of plastic content that can be recycled, it is not necessarily widely recyclable. We are continuing to explore alternatives that will reduce the amount of plastic, while also providing a longer shelf life to reduce food waste.

1 REDUCE THE AMOUNT OF PACKAGING OVERALL

Costco's efforts to reduce the amount of packaging are being balanced against protecting the integrity of the product, availability of suitable alternatives and the complex area of recyclability that is dependent upon geographic areas.

Plastic

In 2019, we began an internal review to determine our packaging footprint. We learned that we have implemented packaging in the last several years that reduces our plastic footprint by over 6 million pounds annually.



Some examples include:

- Redesign of Kirkland Signature™ Kids' Pajamas to remove the plastic hanger
- Replacement of Kirkland Signature by Miraclesuit plastic-molded swimsuit hanger to paperboard
- Redesign of Kirkland Signature candy, nut and Parmigiano Reggiano jar to use less plastic
- Reduced the amount of plastic used in the croissant container and changed the sheet cake tray from plastic to paperboard in the bakery
- Removed the plastic bag from individual bunches of bananas
- Changed Kirkland Signature Bratwurst from black Styrofoam® to paperboard
- In Korea, replaced plastic cups and straws in the food court with paper cups and straws
- In Canada, replaced plastic bags for members in the fresh meat department with compostable bags
- In Taiwan, replaced Styrofoam® meat and seafood packaging with saddle-pack bags
- In Australia, replaced apple packaging with paperboard packaging
- In Japan, replaced Food Court packaging with compostable packaging
- In Korea, replaced cake packaging with paperboard boxes
- In France, removed the plastic wrap on the cucumbers and replaced with two small bands for required sell information
- Across the U.S., replaced plastic straws with compostable plastic or paper straws

Fiber-based & Corrugated Packaging (Fiber)

Fiber used for paper-based packaging should come from known sources, should be procured legally from well-managed forests and should not contribute to deforestation. More information about Costco's deforestation goals, can be found on the [Environmental Impacts and Land Stewardship](#) page.

In 2019, examples of reduction include:

- The paperboard core of the Kirkland Signature™ holiday wrap has been reduced by 10% - 20%.



Compostability

Costco continues to expand the use of compostable packaging. We also recognize that single-use plastic is a worldwide concern and are exploring opportunities to replace those items with alternative materials. As of 2019, we have:

- Replaced straws in all U.S. locations with compostable plastic or paper straws. We continue to replace straws and food service packaging in many locations around the world. This initiative replaces over 140 million plastic straws annually.
- In Japan, provided compostable packaging for all food court packaging.
- In Korea, provided compostable packaging for all food court cups and straws.
- Explored replacing straws with redesigned lids in some locations.
- Used compostable fresh meat packaging in Mexico and in some U.S. locations.
- Used compostable bags in the Canada fresh meat department.

4 EDUCATE

In 2019, we began a series of meetings with our employees to share our packaging commitment, goals, and strategies, and have formed working groups to address packaging issues on a global and department wide basis.

We also shared these same goals and strategies with our suppliers at our 2019 Annual Supplier Day because we need their cooperation and help with innovation.

Labeling

In addition, Costco has increased its focus on labeling to help members know when and what to recycle. Several programs have been adopted to help with this process, which include:



- In Australia, fresh apple corrugated packaging has been reduced by over 30%.

2 INCREASE THE RECYCLED CONTENT AND CERTIFIED FIBER IN ALL PACKAGING

Plastic

Our goal is for all plastic to be widely recyclable or made from recycled plastic. Some examples include:

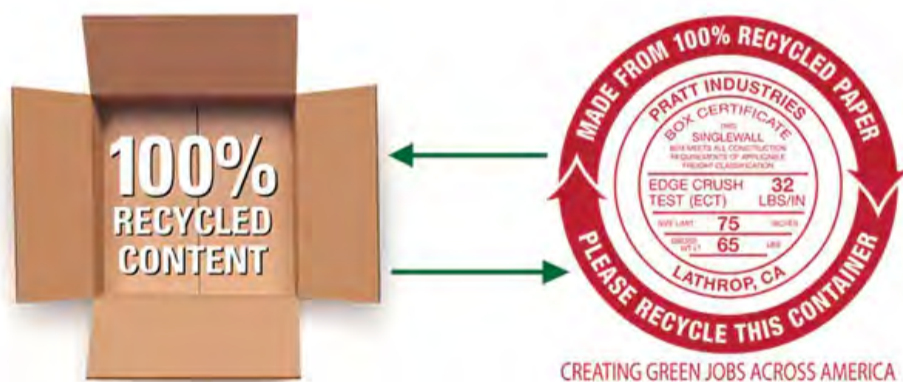
- In Japan, we added 30% recycled content to fresh meat, seafood and deli trays.
- We increased the recycled content in Kirkland Signature 16-ounce water bottles from 30% to 50%. In some regions we have 100% recycled content.
- We use bags to protect fresh meat purchases in the U.S. made from recycled content and recyclable where facilities exist.
- Our Kirkland Signature liquid laundry detergent bottles contain a minimum of 25% post-consumer recycled content.
- Many items in the produce and other fresh foods departments are made from recycled water bottles, which can be recycled in communities where PET clamshell recycling is available. Examples include: Kirkland Signature Water and Kirkland Signature Cage-free Eggs 24 pack.



Egg Packaging

As with all packaging, there are trade-offs, which we try to balance. While we recognize that recyclability of egg cartons is an increasing challenge for some of our members, we also have a priority to reduce food waste in our supply chain. The use of this packaging allows us to save 9 million eggs a year from the waste stream. In addition, our egg packaging is made of 100% recycled PET and is 40% lighter than pulp egg cartons. This weight difference and construction of the packaging allows for 50% more cartons to be packed onto a truck, reducing the delivery impact between farms and our Greenhouse Gas Emissions (GHG) footprint.

Fiber



- All of our U.S. Ecommerce shipping boxes fulfilled by Costco, are 100% recycled content.
- In Canada, a redesign of the Silks® Hosiery display tray utilizes 66% recycled content.

- Costco continues to expand the number of products in the [How2Recycle](#)® label program, a U.S.-based recycle label standardization program. The How2Recycle label identifies each part of the packaging and how to recycle for optimum recovery.
- Costco Australia has been a partner in the [APCO \(Australia Packaging Covenant\)](#) since 2016.

Look for the label! Shelf-stable cartons are recyclable*



*Check locally by going to [recyclecartons.com](#) to check your local municipality.

- Costco began applying labels to food and beverage cartons to support the [U.S. Carton Council](#) initiative to drive more recycling of these packages. Cartons are used to package a number of products, including Kirkland Signature™ Organic Chicken Stock, Organic Milk, Coconut Water, Organic Chocolate Milk, Juice Boxes and many other shelf-stable beverage cartons.
- Additionally, Costco has increased recycle labeling of seasonal merchandise packaging for holiday and decor items.



INNOVATION, REDESIGN & OPERATIONAL EFFICIENCIES

Costco continues to look for ways to improve the design of its packaging to reduce the amount; improve efficiency of packaging; improve operational efficiencies in order to reduce the packaging footprint; and reduce costs. Some examples have included:

- The top of the Kirkland Signature™ salt and pepper refillable grinder is removable to allow the grinder to be refilled and reused, and the container to be recycled.
- The Kirkland Signature Milk program utilizes a square bottle that allows items to be placed on a pallet and more goods to be shipped in a single delivery. In addition, the cardboard box that previously held two traditional milk jugs was eliminated.
- Costco also increased the product count of many of multi-packs, such as water and other beverages. This provides more servings per sell unit, reduces the number of shopping trips and provides a better value. The cardboard tray inside many beverage packs also has been eliminated.
- Costco sells goods directly out of the boxes they are shipped in, then reuses those same recyclable boxes at the register by offering them to members in lieu of shopping bags. Boxes that don't get used by members are recycled in-house. More information can be found in the [Waste Stream Management](#) section.
- In Canada, Costco is part of a closed-loop success story. Costco recycles corrugated shippers and trays with Cascades, which converts them into new packaging products. Some of these products find their way back into Costco warehouses, either directly as Costco branded products or as national branded products. Once their useful life is over, these corrugated shippers and trays go back into the loop and are recycled again by Cascades. More information can be found in the [summary](#).

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