

Green Purchasing Initiatives by AEON Co., Ltd.

Introduction

AEON Co., Ltd., has formulated the **AEON Environmental Philosophy and the AEON Environmental Policies**, which are in turn based on the AEON Corporate Commitment to create “a future of limitless promise — an AEON — by transforming daily life with our open, dynamic approach.” The AEON Environmental Philosophy was formulated in August of 2001, when the firm changed its company name from JUSCO Co., Ltd., to its present name, AEON Co., Ltd. The AEON Environmental Philosophy outlines the firm’s commitment to active initiatives for social contribution and environmental conservation in order to fulfil its social responsibilities as a corporate citizen. Furthermore, the AEON Environmental Philosophy recognizes that these activities have their roots in local communities and declares that the firm will pursue partnerships with local residents and work together with them to build a recycling-oriented society.

The AEON Environmental Policies declare that, as a retailer, the firm will actively carry out environmental conservation efforts through the provision of products and services of superior value at its stores in order to contribute to the establishment of a sustainable society. These policies include a commitment to carry out environmental conservation through AEON’s business activities and to review these activities on a regular basis, as well as to make efforts to achieve continuous improvement in environmental initiatives, of which green purchasing is just one aspect. Additional initiatives set forth by the AEON Environmental Policies include the provision of environmentally conscious products, energy and resource conservation, reduction of waste, implementation of reuse and recycling, and reduction of CO₂ emissions to prevent global warming.

1. Decision-making Process for Environmental Management

In 1990, AEON established the JUSCO Earth-Friendly Committee, which was further developed into the Environment Committee in 1996. Environmental conservation activities are considered an important management agenda at AEON, and the firm has created a group-wide environmental management promotion system led by the president, resulting in an organization with unified policies under a single decision-making structure. Furthermore, following the company name change implemented in August of 2001, AEON changed its organizational structure to allow the directors of the AEON companies and affiliated companies to participate in the Environment Committee, which meets quarterly as AEON’s review board for environmental issues. By doing so, it became possible for the decisions made in the Committee to be implemented as uniform policies throughout the firm and its affiliates thus creating a system that ensures swift participation in environmental conservation activities extending to the store level.

The Environment Committee implements concrete proposals for environmental conservation, and is assisted by Environment Working Groups that carry out studies and draft proposals for the Committee. The six Working Groups concentrate on issues such as “Environmentally Conscious Product Development and Sales Promotion Activities,” “Promotion of Energy Conservation Activities,” “Resource Conservation/Waste Reduction and Green Purchasing,” “CO₂ Emission Reduction Activities,” “Regulatory Compliance Activities for Store Environment Furnishings,” and “Environmental Communication Activities.” Each working group is made up of 7 to 11 representatives representing up to five affiliated companies, with companies chosen according to their relevance to the working group theme.

AEON Co., Ltd., practices green purchasing as part of its environmental policies. Consequently, the

firm acquired company-wide multi-site ISO 14001 certification in June of 2000. With over 360 stores and about 60,000 employees, it had become necessary for AEON to establish an Environmental Management System, and the decision to acquire ISO certification on a company-wide basis was based on the determination that all staff members would be motivated to actively involve themselves in the Environmental Management System by ISO certification.

2. Green Purchasing Initiatives

A. History of Green Purchasing Activities

February 1996	Establishment of the Green Purchasing Network in cooperation with other entities AEON continues to participate in management of the Network as a managing member.
August 1997	A green purchasing product list is established for stationery, office supplies, and copy paper. Start of the green purchasing of office supplies and materials.
April 1998	Introduction of recyclable mannequins for use on garment sales floors
October 1999	Entire company switches to advertising flyers made from 100% recycled paper.
June 2000	Acquisition of company-wide multi-site ISO 14001 certification AEON adds the promotion of green purchasing to its Environmental Policies and specifies the relevant fields and environmental targets for each year, while moving forward with the “formulation of standards and step-by-step promotion of green purchasing.” Establishment of a project team for procurement of materials and supplies A project team is established to consolidate the procurement operations of all offices and stores into an electronic ordering system for materials and supplies. A review of green purchasing standards for stationery, office supplies, and paper and sales materials is also implemented.
November 2000	Commencement of operations of the green purchasing system for materials and supplies (unified management of green purchasing performance) Environmentally conscious products are recorded in the purchase order register for materials and supplies based on the green purchasing standards.
2001	Green purchasing standards established for sales materials and construction materials, in accordance with green purchasing guidelines.

New environmental initiatives by AEON include the adoption of green purchasing for the procurement of construction materials used in store construction. For the construction of the JUSCO Mikawa Store opened in September 2001, AEON made exclusive use of recycled flooring materials in the mall area and reduced the total volume of materials used, including a 75% reduction in construction adhesive usage. AEON also achieved a 35% reduction in the volume of flooring materials used in the mall area by utilizing a flooring material with a textile surface composition. Although textile surfaces tend to diffuse light and create a darker lighting environment, this issue was mitigated by the ample light offered by glass roof enclosures, which are frequently used in the retail mall corridors that connect major outlets such as AEON and Toys “R” Us stores in large-scale shopping centers. After using textile surface flooring materials on a trial basis, AEON concluded that there were no issues with this choice of flooring materials when combined with the pattern of heavy foot traffic coming in from the snow, a factor that reflected the JUSCO Mikawa Store’s location in Yamagata Prefecture. The firm also realized the added benefit of lower maintenance costs for cleaning the textile surface flooring

materials. By April of 2002, AEON had changed the design of its mall-type stores to specify textile surface flooring materials for all mall corridors. As a further extension of its green purchasing practices, AEON also presently conducts green purchasing for 14 categories of construction materials.

While AEON's green purchasing initiatives might appear to have proceeded smoothly, the staff at AEON who were responsible for the green purchasing project have indicated that there were difficulties with practical implementation. For example, differences between theory and practice led to disagreements between the firm's experienced construction material buyers and its environmental staff, who lacked specialized expertise in construction materials. AEON managers recognize that, despite top-down implementation of environmental conservation policies, actual policy implementation can vary from situation to situation, lacking a wholehearted acceptance of environmental conservation policies at all levels. According to the AEON staff mentioned above, patient discussion is required to prevent inconsistent implementation of environmental conservation policies.

B. Green Purchasing Policies and Guidelines

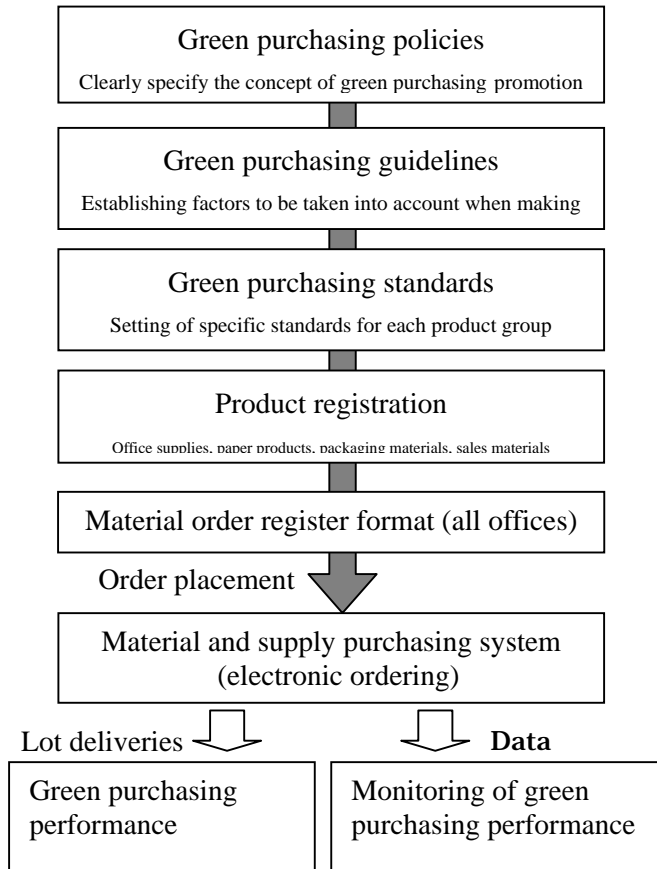
AEON's green purchasing policies are intended to reduce the impact on the environment resulting from the firm's daily business, by promoting increased purchasing of environmentally conscious products and services. By promoting green purchasing, AEON is attempting to expand the market for environmentally conscious products and to support efforts to reduce the environmental impact of product development and product supply by manufacturers and other sources. Furthermore, the firm hopes to accelerate the purchase of environmentally conscious products and services by its customers and at the municipal level, as one way of contributing to a sustainable society.

The green purchasing guidelines set forth by AEON are comprised of criteria for the selection of environmentally conscious products. Product and material purchase are reviewed to determine if they are first and foremost necessary, then selected with an emphasis on products and materials that have a low impact on the environment, rather than basing the selection solely on price and quality criteria. AEON's green purchasing guidelines are applied to the purchase of office products, marketing display materials for sales floors, and materials for sales such as packaging. During the 2001 fiscal year, AEON also established a separate set of criteria for the selection of construction materials.

Green Purchasing Guidelines (criteria for the selection of products)

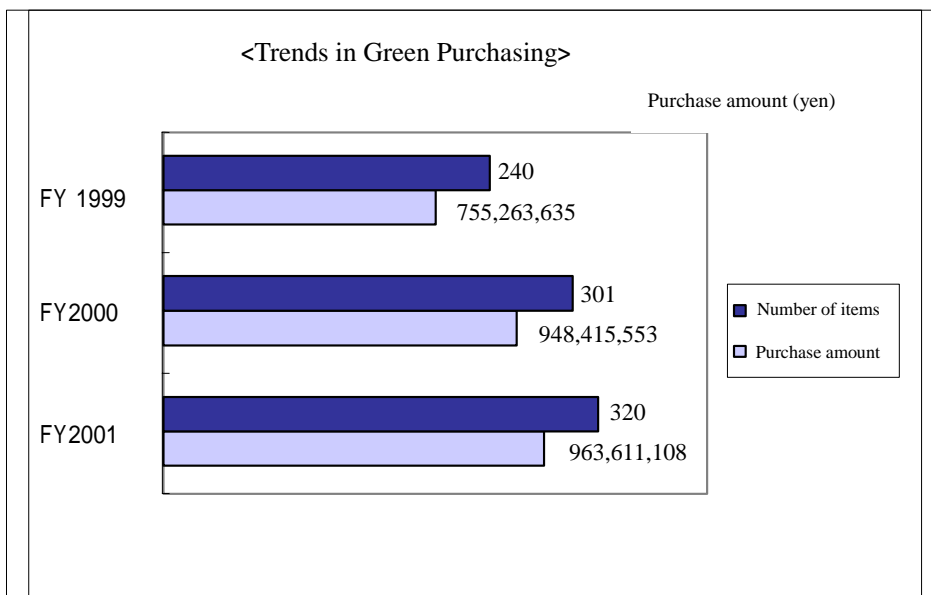
- Products with environmental labeling (Eco Mark, etc.)
- Products with environmental consideration for the manufacturing stage
 - Use of recycled, surplus, or waste materials
- Products with environmental consideration for use
 - Low consumption of resources or energy during use
 - Capable of repair, "parts" replacement or refilling
 - Reduced use of packaging or packing materials
- Products with environmental consideration for the disposal or recycling stage
 - Classifiable waste, recyclable
 - Durability enabling long-term use
- Products that do not generate hazardous substances in the use or disposal stages

C. Mechanism for Promoting Green Purchasing



*Enables monitoring of green purchasing amounts using a material and supply purchasing system for integrated management of the order placement process.

D. Trends in Green Purchasing



3. Initiatives to Promote Green Purchasing by Consumers

AEON introduced the “Bring Your Own Shopping Bag” campaign in May of 1991, based on a commitment to eliminate single use items and waste items wherever possible. This campaign was followed by the introduction of the Shopping Bag Stamp Card in September 1991, in which customers receive a stamp each time they indicate that they do not need a plastic shopping bag at the check-out counter. When shoppers have 20 stamps, they may present the card in exchange for a product. Based on further input from its customers, AEON later introduced the “My Basket” campaign in May of 2000, as a way to further encourage customers to reduce the use of plastic shopping bags at supermarket check-out areas. Starting in May 2001, the “My Basket” campaign was extended to all sales areas including clothing and daily necessities sections. These initiatives have resulted in a decrease in the consumption of plastic shopping bags, as shown in the chart below.



The number of stamp cards exchanged by shoppers has also increased. Although shoppers initially had the option of exchanging their stamp card for either 100 yen in cash or a product that helps to conserve the environment, AEON instituted changes in September of 2002 so that shoppers could only exchange their stamp cards for environmentally conscious products developed in-house by AEON. This change was motivated by the firm’s desire to increase awareness of the benefits of environmentally conscious products among customers, and to serve as a springboard for green purchasing by customers. (AEON’s line of environmentally conscious products is described in more detail later in this document.)

AEON’s 60,000 employees are educated about environmental issues by means of an education system and procedures that are standardized under the ISO 14001 management system. The aim of this program is to ensure a uniform level of environmental awareness among all employees at all stores. Company bulletins also provide information on green purchasing in order to improve awareness of green purchasing among AEON employees. During the course of their daily work, AEON employees wear uniforms made from recycled PET bottles, work with recyclable mannequins, use advertising flyers made from 100% recycled paper, engage in paperless office communication, and utilize copy paper developed by AEON that is made from 100% recycled newspapers and still achieves 70% brightness. Other initiatives include the use of display shelves and point-of-purchase displays made from recycled milk cartons, and the use of “Turn Me Off” signs on light switches to encourage employees to turn off room lights whenever possible.

4. Environmental Communication and Promotion of Green Purchasing by Customers

AEON has established the TOPVALU private brand of environmentally conscious products, with three sub-brands named TOP VALU *Kyokan Sengen* (“declaration of environmental consciousness”), TOPVALU Green Eye, and SELF + SERVICE.

The TOPVALU *Kyokan Sengen* brand is reserved for environmentally conscious products developed according to AEON’s own standards. Products must show consideration for the environment and be of superior product quality, with products divided into three sub-categories so that customers may better understand how each product shows consideration for the environment. As of February 2002, AEON sold approximately 240 items under the “Recycle,” “Clean,” and “Natural” sub-categories of the TOPVALU *Kyokan Sengen* brand.

- Recycle: Products that effectively utilize recycled materials from in-store collection including aluminum cans, milk cartons, food trays, and PET bottles.
- Clean: Products that incorporate considerations for the conservation of air and water quality and do not pollute nature.
- Natural: Products that effectively utilize natural materials to replace those that have a heavy impact on the environment.

The TOPVALU Green Eye brand of products are grown or manufactured in consideration of health and the natural environment, based on the principle of providing customers with safe products and peace of mind. AEON applies the following five standards to TOPVALUE Green Eye products:

- (1) Food products that do not use artificial food coloring, preservatives, or sweeteners.
- (2) Minimal use of chemical substances such as fertilizers, pesticides, and antibiotics during production.
- (3) Emphasis on utilizing natural energy to obtain good flavor using suitable cultivation methods and fertilizers at proper locations and at appropriate times.
- (4) Support of agriculture that takes into consideration the conservation of the environment and ecosystems.
- (5) Comprehensive control from production to sales based on AEON’s own standards.

The TOPVALU Green Eye brand represents a new lifestyle and encompasses a wide array of products that are grown organically or grown with reduced use of agricultural chemicals, stock farm products that are safely bred, and processed foods that are made with the above two as ingredients. AEON has also introduced product labels using symbols to indicate various environmental considerations undertaken in the process from production to sales. The six symbols described below are applied to products according to AEON’s own standards.

Utilization of natural energy available at the local area

The symbol indicates contribution to curbing global warming by utilizing energy resources that are available at the local area, such as solar energy and heat from hot springs, for production activities.

Utilization of returnable containers

The symbol indicates the use of returnable, reusable containers for delivery from the producing centers in order to reduce the use of cardboard boxes.

Utilization of composted soil from the local area

The symbol indicates the use of environmentally conscious cultivation methods based on the material cycle of the local area.

Utilization of materials that can be returned to the soil

The symbol indicates the use of materials that can be returned to the soil to replace petroleum-based agricultural materials and containers.

Considerations for the prevention of river and soil pollution

The symbol indicates the recycling of agricultural materials and restraint on excessive use of fertilizers and agricultural chemicals.

Eco-farmers certified by prefectural governors

The symbol indicates that the produce is grown by “Eco-farmers” who have pledged to carry out production activities utilizing the natural elements of the local area and who have been certified by a prefectural governor.

In addition, representatives of AEON Co., Ltd., have visited agricultural producers in different parts of Japan to explain the firm’s intentions for TOPVALU farm produce and to seek the cooperation of the producers in cultivation. As a result, the firm has presently gained the support of approximately 3,000 agricultural producers who are currently working with AEON in production and sales.

The SELF + SERVICE brand offers products and store facilities that contribute to a sustainable society. The brand name conveys the message of “raising awareness of the environment within ourselves and putting this into action starting right at home.” Product development for the SELF + SERVICE brand is undertaken based on the five themes of “Recycling,” “Ecology,” “Natural,” “Organic,” and “Protection.” Efforts include the use of recycled cotton made of discarded cotton, the use of Tencel, which is made of wood pulp with little environmental impact, and the adoption of a manufacturing process employing dyes that create less water pollution. Furthermore, environmental considerations can be found throughout store facilities. Some examples include checkout counters using lumber from tree thinning, displays made of recycled acrylic, and racks made of recycled whisky barrels. AEON has also piloted the volume sale of additive-free shampoos at some stores.

Products offered under the SELF + SERVICE brand include pens made from recycled plastic, notebooks made from 100% recycled paper, recycled cotton shirts, Tencel innerwear, additive-free soap, and organic cotton towels.

Sales from AEON’s TOPVALU *Kyokan Sengen*, TOPVALU Green Eye, and SELF + SERVICE brands of environmentally conscious products totaled 9.2 billion yen in 2000. In 2001, sales from the three brands reached 23.7 billion yen, or 1.4% of total sales.

AEON is also involved in new and experimental efforts to conserve the environment, including efforts to establish a sustainable sales system in cooperation with Kyoto City, Kyoto University, the Citizens Environmental Foundation (NPO), AEON’s JUSCO Higashiyama Nijo Store and its customers. At the JUSCO Higashiyama Nijo Store, AEON is attempting to establish a sustainable sales model to encourage local consumption of locally produced agricultural products. Vegetables produced in the northern area of Kyoto City are displayed next to imported vegetables that come from around the world, in an effort to determine the price ceiling that shoppers are willing to accept to obtain locally produced products intended for local consumption. The collaborative approach of this effort is based on AEON’s recognition that governmental certification and the vocal support of NGOs are essential in creating a cost structure that will encourage local consumption of locally produced products, in spite of their higher cost to consumers. AEON’s efforts to create a sustainable system are based on the acknowledgement that such initiatives must be carried out in partnership with other sectors in the community, rather than working in isolation.