

# Q&A on the True Value of Food, True Cost Accounting and True Pricing

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## WHY IS TRUE VALUE A GAME CHANGER FOR FOOD SYSTEMS?

Our food needs to become healthier, more sustainable and accessible for all. But there will be no ‘trigger’ for change as long as healthy and sustainable food is unaffordable to billions, unsustainable food is cheap and profitable, and the impact of food on people and planet is hidden.

The key problem is that prices, profits and GDP do not tell the true story about the value of food: for example, they ignore the costs of climate change but also the benefits of affordable food. The solution is to make the true value of food visible, and integrate its hidden costs and benefits in profits, prices and GDP. This provides governments, businesses and consumers with the true story about food, so they can make better decisions. In addition, it makes healthy and sustainable food more affordable and aligns market incentives with the creation of value to all people, present and future. In essence, the true value of food provides the economic model needed for sustainable food systems.

## WHAT IS IT?

*What is meant by the true value of food?*

The True Value of a product, business or system is its contribution to the welfare of society. The True Value of Food helps us understand how the food system creates value and how it depends on natural, social, human and economic resources. For example, producing rice involves economic costs (labor, fertilizer) and climate costs (methane emissions, water usage), as well as financial benefits to farmers and healthy food to people. Some costs and benefits are reflected in prices and other economic metrics, but many invisible costs and benefits are not: these are called ‘externalities.’

If true value is integrated into the mindset, information and incentives of food systems, it can give rise to an economic model for sustainable food systems. From a true value perspective, the objective of the food economy is the provision of healthy food to all while remaining within planetary and social boundaries. Businesses can then seek to create true value for each stakeholder. To enable policy and market decisions that optimize true value, information about it needs to be integrated in business and economic indicators, such as profits, returns and GDP. Finally, to align economic incentives with true value, externalities need to be included in prices through market and government pathways.

Measuring the true value can be science-based and can provide insight into the trade-offs involved in optimizing true value. How to balance the trade-offs, however, will remain a personal choice for consumers, a strategic choice for businesses and a political choice for governments.

*What is True Cost Accounting?*

True Cost Accounting (TCA) is the discipline of assessing, quantifying and valuing (in monetary terms or otherwise) all costs and benefits, in order to facilitate sustainable choices by governments and other food system stakeholders. It provides the language and tools to measure true value.

- Environmental externalities of the food system include water use, emissions and pollution.
- Social externalities include under-earning of farmers, underpayment of workers, discrimination, social development and support of cultural practices.
- Health externalities include contribution to cardiovascular diseases, antimicrobial resistance, zoonoses as well as supporting life and extending healthy life years.

Recent analyses reveal that the total hidden costs of food are twice the visible costs of food. As food is a pre-condition for life, the total benefits of the food system are huge and not fully quantifiable.

#### *What is true pricing?*

True pricing is the internalization of externalities to make healthy and sustainable food more affordable and align market incentives with true value through market-based pathways, regulatory policies and income policies. It builds on classical economic approaches to internalize externalities but adds sustainability criteria such as living wages, human rights and planetary boundaries. The true price of a food product measures on the one hand the social and environmental costs, and on the other the affordability of healthy food for people earning a living wage. Businesses and consumers can reduce their external costs through their choices. Governments can subsidize healthy and sustainable food and/or tax external costs and set criteria for social and environmental rights. At scale, true pricing can redesign the economics of food to make healthy and sustainable food products more affordable and profitable. In the short term, pragmatic 'second-best' true pricing approaches can be pursued that minimize administrative burdens, avoid trade implications and focus on subsidizing better choices.

#### **HOW TO USE IT?**

*Governments* can integrate true value and TCA into policy, budgeting and national accounting. For example, some agricultural land-use policies already value ecosystem services. Governments can also implement true pricing via regulation, taxes, subsidies and/or income policies.

*Businesses* can use true value to manage their supply chains, address inefficiencies (e.g. food loss & waste), mitigate impacts and communicate transparently about their sustainability to consumers.

*Financial institutions* can integrate true value in reporting, portfolio management, ESG risk assessments and estimates of the cost of capital of debt and equity, enabling impact investing.

*Consumers* can use true pricing to compare food alternatives and make sustainable and healthy choices based on objective information.

#### **HOW TO DEAL WITH LIMITATIONS AND CONCERNS**

##### *Can all externalities be expressed in monetary terms?*

There is active discussion on which aspects can and should be valued. There are well-established, albeit sometimes complex, techniques to quantify and to monetize environmental externalities, including shadow pricing, abatement costs and remediation. Methods to quantify and monetize social and in particular health externalities are less mature. Quantifying health externalities of products is complex as health impact pathways run through diets. Social and health externalities can be monetized by well-being valuation, valuation of a healthy life year and the cost of remediation.

##### *How can healthy and sustainable food remain affordable for consumers?*

If the reduction or increase in overall price levels is combined with e.g. a carbon tax, sustainable food can be budget-neutral for governments, as they lead to savings in public expenditure on climate action and health care. Overall, internalizing externalities leads to welfare gains as it induces more efficient market equilibria. Still, it is important to pay attention to the distributive effects and ensure that the welfare gains are distributed equitably.

#### **About this Q&A**

This Q&A captures state of the art knowledge on the frequently asked questions about the true value of food, true pricing and true cost accounting, while science, practice and consensus evolve quickly.