

True pricing explained

What is true pricing?

The true price is the market price of a product including the social and environmental costs, such as under-earning of a farmer or water pollution.

Calculating the true price means to create transparency in the value chain, make hidden costs visible and take steps to internalize the externalized costs. As true pricing adheres to human and environmental rights true pricing makes it possible to prevent the infringements of rights or to restore or compensate when damage in the value chain occurs.

There are several examples of true prices. Spinach from Italy is on the shelves for €6.95 per kilo, but actually cost €7,18. Bananas from Peru are sold for €2.79 per kilo, but actually cost €2.94. And tomatoes from the Dutch Westland for €1.49 per kilo but should cost €1.63.

How can healthy and sustainable food remain affordable and accessible for more consumers?

The goal of true pricing is to make sustainable, healthy products affordable for all. Social and environmental externalities generate a cost burden often not attributed to the food produced. True pricing provides transparency and makes hidden costs in value chains visible. When hidden costs from negative externalities become visible, all actors involved in the global food system are incentivized to act in favor of more sustainable food systems: businesses can change their supply chains, strategy and risk management, governments can redirect taxes and subsidies, and consumers can make healthy, sustainable choices.

The prices of individual commodities might rise, but the benefits of healthy foods and related cost savings elsewhere in the economy can be used to compensate. This ensures that overall food prices do not rise, and all consumers have better access to sustainable and healthy food. Still, it is important to pay attention to the distributive effects and ensure that the welfare gains are distributed equitably.

Inflation

The inflation rates we are currently facing can also be seen as a result of not including external costs in prices. It can be seen as an effect of environmental costs such as failed harvests because of soil degradation, floods and droughts, and health costs, such as the COVID-19 pandemic. With true pricing, the effects of these crises can be reduced because costs for preventing them are reflected in prices. Lastly, in this time where the perception of prices is changing, there is momentum for the introduction and adaptation to the true price of food.