

True costs and true prices in EU food and agriculture policies

It has long been known that markets do not always reflect the true scarcities, particularly when so-called external effects are involved. Some recent analyses show that this is also true for agriculture and food systems. These external effects comprise a vast array of impacts such as biodiversity loss, climate change, animal welfare issues, health problems, landscape deterioration and others, causing damage to other actors than those involved in the market transaction. Hence the term 'external'. This leads to welfare loss.

As an example: a recent analysis by BCG for Germany shows that the external costs of greenhouse gas emissions by the German food sector alone amount up to 40 bln. EUR/year, while biodiversity losses would add up to 50 bln. EUR/year in an even conservative estimate. Next to that, some 10 bln. EUR/year is spent as general support for the agricultural sector. The annual sectoral added value of 21 bln. EUR appears to be only one fifth of the total costs. Comparable figures, albeit with a wide spread, have been produced for other countries. Note that there can also be external benefits that should be estimated as well.

Unabated externalities may also lead to societal turmoil when an external effect at a certain moment exceeds the limits of the tolerable, and politics is under pressure to take measures that then meet heavy resistance. A more gradual and smooth way to lower the external costs will be a more acceptable one than sudden interventions, as it gives actors time to readjust their practices. Internalizing external costs by following a predictable pathway is a good strategy for doing so.

In energy and transport, the principle of internalizing externalities has long been in place to give guidance to policy interventions. 'Getting the prices right' was the title of a long-lasting campaign in and with the transport sector. The European Commission has played a pivotal role, by launching several studies, by commissioning a regularly updated [handbook](#) on external cost calculations, and by including internalization strategies in directives for implementation in the Member-States.

Approaches for estimating and internalizing external costs (under a variety of terms like true costing, true pricing, full cost accounting and more) are getting more and more attention in the world of agriculture and food systems. Unsurprisingly so, since the impacts of food and agri-systems on various goals and values is enormous, and the notion is rapidly growing that systems changes ('transition') are needed to create a future that enables *healthy living on a healthy planet* (as the Dutch Food Transition Coalition summarizes its mission).

As compared to the dynamics in transport or energy, externalities thinking in food and agriculture is in a more early stage. There is an overwhelming amount of activities, like research projects, local and chain-oriented experiments, public as well as private initiatives, covering a variety of system levels, ranging from an individual products like milk, potatoes or tomatoes, via value chains from farm to fork, to regions or countries. The initiatives aim at developing knowledge and insights, communicating the gap between market prices and 'true' prices, thus raising awareness among consumers, producers, citizens and politicians, and to prepare for measures that need to be taken to reduce the externalities in the best possible way.

However, it is not yet clear what the best strategy for internalization of externalities in food and agriculture is. Should interventions be done downstream in the value chain, at the consumer's level, and/or at the retailers? Or should, perhaps, measures be taken upstream at farm level, or even on inputs such as (imported) resources and minerals? What are the best leverage points, and what instruments can best be used?

Next to considering effectiveness and efficiency, the [subsidiarity principle](#) will play a crucial role: some policy instruments can and should be implemented at State level, while others may require a framework on EU level.

This is where the European Commission can weigh in by giving guidance to Member-States on the issues of externalities in food and agriculture, particularly by formulating policy strategies that should be implemented on State level, in combination with measures that require international cooperation that can best be organized at the EU level. Inspiration can be found in climate policies, where some interventions like the EU Emissions Trading System ETS, the fuel directive and the renewable energy directive are orchestrated at EU level, and others like spatial planning, insulation, energy taxes and others are implemented at state level.

We advocate the preparation of a EU agriculture and food external effects strategy that may comprise:

- A general vision of the future of agriculture and food systems in the light of current externalities and the need to develop towards a positive impacts system
- Methodological guidance for calculating external effects, on various levels (product, value chain, landscape, state), a.o. by extending the current EU handbook on externalities with agriculture and food specific parameters
- Development of instruments on EU level, for issues that can not (easily or sufficiently) be regulated by Member-States
- A policy framework for national policies to be implemented by Member-States in their national laws, providing guiding principles for national regulations, tax schemes and other instruments that are national competences. In case of revenues from taxes, suggestions can be made to use these revenues for lowering other costs, e.g. the costs of labor, and/or for reducing the price gap between virgin and recycled resources, thus contributing to a more circular economy.

Such a strategy may be eventually converted into a directive.

As a first step, we propose to make an inventory of international true cost/true pricing-related initiatives and analyses, and an assessment of the strong and weak points and lessons learned of the variety of methods and approaches in use. We specifically advocate a role for innovative sustainable bottom-up approaches, as they are paving the way for new thinking and new practices that not only avoid negative external effects, but also include external benefits.

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