

NARRATIVE OF THE TRUE COST INITIATIVE

1. In short

The goal of the True Cost Initiative, with its 12 members, is to make the true costs and benefits associated with the production of agricultural products visible, measurable, and thus comparable. The True Cost Accounting (TCA) methodology, which was developed step by step by the True Cost Initiative for this purpose, is intended to achieve a steering effect towards more sustainable production.

2. The status quo

In recent years, numerous measures have been initiated in the agricultural sector to meet the requirements of environmentally conscious and responsible management. However, various deficits remain in ecological, economic and social terms, as the production of food and agricultural products continue to frequently exceed planetary boundaries and violate various human rights. For example, agriculture alone is responsible for 23 percent of global greenhouse gas emissions, and millions of workers around the world earn wages below the subsistence level.¹

This document was prepared by a working group of the True Cost Initiative. It describes the initiative's vision of True Cost Accounting (TCA) and the theory of change followed by the Initiative. The document makes transparent the Initiative's reasons and motivations for pursuing the work.

¹ IPCC (2019). Land is a Critical Resource, IPCC report says. IPCC press release. Geneva, Switzerland. Available at: https://www.ipcc.ch/2019/08/08/land-is-a-critical-resource_srccl/

3. The problem: hidden costs and false prices

Until now, the cultivation of food has often entailed hidden costs in the form of social, health and environmental damage.

Currently, polluters in the economy do not have to pay for the fact that they pollute common goods such as water, air and soil through their production methods. Instead, the general public - and thus every individual - pays, for example through tax payments and water bills for the reprocessing of groundwater that is contaminated by chemical synthetic pesticides during the conventional cultivation of food.

Agricultural production is therefore currently also at the expense of others: future generations, farmers, consumers and the environment. They are paying the bill for the current system. How much will the loss of biodiversity caused by this pesticide use cost us in the long run? And how high will the social costs rise if exploitative child labour continues to be used to keep cultivation costs "low"? These are questions that all companies must ask themselves across all sectors.

Cheap food is therefore actually much more expensive than it appears - a study from England even found that its real cost was twice its market price.²

4. Reasons for the distorted image

For decades, companies, investors and tax authorities have primarily considered only financial and production capital when quantifying corporate success. Environmental and social damage are not taken into account and are therefore usually not considered in corporate decisions. This is also reflected in economic terms. For example, although the gross domestic product of many countries indicates growth, it does not indicate whether this growth is sustainable. According to calculations by the Boston Consulting Group,³ German agriculture generated €21 billion in gross value added in 2017, but at the same time generated €90 billion in environmental impact costs.

The danger of insufficient accounting is that no value creation takes place, but rather resources are degraded ("harmful creation").⁴ In the long term, this leads to the partly irretrievable destruction of the basis of life of present and future generations.

5. Vision of the True Cost-Initiative

The misguided development evident from this and other studies needs to be counteracted by financial instruments - and this with a view to environmental and social catastrophes in the present and very near future. Corporate accounting must be fundamentally improved so that all costs relevant to decision-making are taken into account. Not only a correction is needed across industries and countries, but also the development of promising approaches for the future. True Cost Accounting, which also takes into account human, social and natural capital in business results and business development, is one such approach.

To advance this new form of accounting, agri-food companies, non-governmental organisations, accounting firms, financial institutions and academics joined forces in spring 2019 to form the "True Cost - From Costs to Benefits in Food and Farming" initiative. Together, the members of the initiative are driven by the desire to make the industry comprehensively sustainable: not only economically, but also as measured by ecological and social criteria. This includes, for example, the preservation of soil fertility and the goal of more climate-friendly production.

The initiative aims to communicate the true value of agricultural products to all stakeholders - from consumers to banks, insurance companies, food retailers and politicians. To this end, the True Cost Initiative is developing the True Cost Accounting method. The members see an important tool in TCA for the transformation of an agricultural economy which currently exceeds the planetary boundaries and causes high social costs, to an economic way of life which enables a fair life, sustainable in the long-term, for all.

The aim of applying True Cost Accounting is for companies to create as much responsible value as possible and to report this in monetary terms, because money is the language of business. To achieve this, it is essential to examine and, if necessary, correct large parts of the value chain in order to protect against social and ecological risks and damage on a long-term and far-reaching basis.

² Fitzpatrick, I., et al. (2017). The Hidden Cost of UK Food. Bristol, UK. Sustainable Food Trust.

³ Boston Consulting Group (2017). Nachhaltigkeit in der deutschen Landwirtschaft erfordert große Umbrüche. Düsseldorf, Deutschland. Available at: https://image-src.bcg.com/images/20191114_BCG_PM_Nachhaltige_Landwirtschaft_tcm108-234238.pdf.

⁴ Gabler Wirtschaftslexikon (2021). Schadschöpfung. Wiesbaden, Deutschland. Verfügbar unter: <https://wirtschaftslexikon.gabler.de/definition/schadschoepfung-44691>.

6. Measures and tools

The core of the TCA methodology is the expansion of corporate accounting to include environmental and social costs as well as environmental and social benefits. This is a crucial step towards internalising externalities and thus following the polluter pays principle. In addition, in the long term, TCA can also be used as an important tool for risk management - both at the company level and at the level of society as a whole - in order to provide early information about potential risks. TCA can be an aid for manufacturing companies to identify impact hotspots and develop meaningful measures. It makes costs and benefits visible and can thus contribute to a change in awareness among political and economic decision-makers. Furthermore, True Cost information can also be used in discussions with food retail buyers and end customers. The TCA approach can also be used by financial institutions and policymakers to promote sustainable business and investment, for example by using True Cost information when granting loans or designing impact-based agricultural subsidies.

7. Examples of monetary valuations

... in Germany

In a study of three organic farms, GLS Bank compared the monetary effects of True Cost Accounting at the national level with those of three conventional farms. Here, the social and ecological costs were included and the yields were compared. The result: conventional production causes damage averaging over 3,500 euros per hectare per year. Extrapolated to the number of farms and area used by the currently-predominant conventional agriculture in Germany, this corresponds to costs of around 61 billion euros per year. In contrast, organic farming generates a net profit of 885 euros per hectare per year on average because, among other things, it safeguards biodiversity, increases soil fertility and reduces CO₂ emissions.⁵

...in Egypt

A study by Heliopolis University shows for Egypt that in terms of price, organic food is the cheaper product when pollution costs, greenhouse gas emissions, energy and water consumption are taken into account. The study calls for Egypt to switch to 100% organic agriculture.⁶

8. Outlook

The True Cost Initiative takes an important step in the further development of True Cost Accounting in the agri-food sector. In February 2022, the True Cost Initiative will release a True Cost Accounting Handbook, which explain the methodology of TCA in the agri-food sector down to the smallest detail. Previously, two pilot projects were conducted, testing the application of the elaborated methodology in more than 10 countries for different agricultural commodities. The current members are aware of their social and environmental responsibilities and continue to work actively on comprehensive solutions for a more sustainable agriculture.

Only when all actors in the market are measured by the same yardstick will the basis for competition become more equitable. Therefore, it is necessary that the rules of the game apply to all and that we move from a voluntary initiative to a gradual mandatory introduction of indicators for true cost accounting. Political framework conditions must be set to make this possible.

The shortcomings in national and international accounting standards are not limited to agriculture but lead to cost distortions in all sectors of the economy. True Cost Accounting must therefore be extended to all sectors of the economy in the long term. By producing the True Cost Accounting guidelines for the agri-food sector, the initiative is therefore taking on an important pioneering role that can serve as inspiration and impetus for policymakers and other sectors of the economy.

⁵ GLS Bank (2019). Wahre Kosten sichtbar machen: Deutschland braucht Abgaben auf Spritz- und Düngemittel sowie CO₂. Bochum, Deutschland. Available at: <https://www.gls.de/privatkunden/gls-bank/aktuelles/presse/wahre-kosten-sichtbar-machen-deutschland-braucht-abgaben-auf-spritz-und-duengemittel-sowie-co2/>

⁶ Available at: <https://www.sekem.com/wp-content/uploads/2020/06/The-Future-of-Agriculture-in-Egypt-study2.pdf>

9. References & further links to projects of TCI members

Website of TCI

www.tca2f.org

Dossier MISEREOR

<https://www.misereor.de/fileadmin/publikationen/die-wirklichen-kosten-unserer-lebensmittel.pdf>

Projects of TCI member Eosta about TCA

<https://www.natureandmore.com/files/documenten/tca-fff-report.pdf>

<https://www.eosta.com/en/news/queen-maxima-reveals-true-cost-pineapple>

<https://www.eosta.com/en/news/who-will-pay-the-true-price>

<https://www.eosta.com/en/news/true-cost-accounting-pilot-calculates-hidden-impacts-of-food-on-people-and-planet>

Other Studies

<https://www.sekem.com/wp-content/uploads/2020/06/The-Future-of-Agriculture-in-Egypt-study2.pdf>

https://image-src.bcg.com/Images/Die_Zukunft_der_deutschen_Landwirtschaft_sichern_tcm108-234154.pdf

<https://www.rockefellerfoundation.org/wp-content/uploads/2021/07/True-Cost-of-Food-Full-Report-Final.pdf>

<http://teebweb.org/our-work/agrifood/country-implementation/>

<http://teebweb.org/our-work/agrifood/country-implementation/eupi2019/>

The "True Cost – From Costs to Benefits in Food and Farming" initiative was founded in 2019. It brings together a broad network comprising businesses, non-governmental organisations, auditing firms, and scientists. The project group participants generate technical guidelines for calculating the true costs of food and agricultural products. More information about the initiative can be found on the website www.tca2f.org.



Martin Bauer Group



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