TRUE PRICE COLLOQUIUM

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Agenda

Part 1
- Introduction to true pricing + Example 16.00
- Time for discussion 16.15

Part 2
- True price framework 16.30
- Time for discussion 16.45
Introduction to true pricing
Societal costs of products are often not included in the (market) price

- First ‘formal’ description of externalities generally credited to Arthur Pigou exactly a century ago (1920)
As of 2020
About our organization True Price

Founded in 2012, specifically to stimulate true pricing

First method worldwide that measures social and environmental costs at product level

Long-time partner of WEcR; since 2019 working together in Public-Private Partnership

Our tools:

Training & workshop  
Software  
Strategy  
Data  
Excel tools  
Protocols

Selection of clients:

ABN-AMRO  
CNV  
AkzoNobel  
Pauwels Consulting  
OCCO  
Peeze  
The World Bank  
Schiphol Amsterdam Airport  
DSM  
Bam  
UNEP  
achmea  
Triodos Bank  
Bijzonderheid  
Solidaridad  
Rabobank  
World Wildlife Fund  
Hivos
“True price gap”

Now

Future?

Social external costs

Environmental external costs

Market price
Three approaches (in the future)

- **Transparency**
  Customers (and procurement managers) can see the true price

- **Remediation**
  Customers and companies can decide to remediate external costs voluntarily

- **Level playing field**
  Governments can tax based on remediation and/or can make remediation compulsory
Applications of true pricing for...

- Consumers
- Sustainability pioneers
- Policy makers
- Large corporation
- Small and medium enterprise
- Sector associations
Example: the true price of local bread
Published true prices (2015-2019)

- Echte prijs van rozen
- Echte prijs van bananen
- Echte prijs van palmolie
- Echte prijs van koffie (Mexico)
- Echte prijs van diamanten
- Echte prijs van koffie (Colombia)
- Echte prijs van rozen
- Echte prijs van brood
- Echte prijs van jeans
- Echte prijs van cacao/chocolade
Van Vessem is a local bakery

- Aims for sustainable production with local and organic ingredients, and green energy.

- Recently in stock: ‘Haarlemmer Meer Brood’
A lower true price gap
A lower true price gap

- Main impacts: water pollution, contribution to climate change and air pollution
- Underlying drivers: fuel (for transport), electricity use, and manure use

<table>
<thead>
<tr>
<th>Echte kosten van brood (eur/brood)</th>
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<tbody>
<tr>
<td>HMB</td>
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<tr>
<td>€ 0.17</td>
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<tr>
<th>Conventioneel</th>
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<tr>
<td>€ 0.32</td>
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- Materiaalgebruik
- Watergebruik
- Energiegebruik
- Watervervuiling
- Bodemvervuiling
- Luchtvervuiling
- Landgebruik
- Klimaatverandering
Zoom-in: energy use in the bakery

Electricity

- Lower impact at Van Vessem due to 100% green energy

Natural gas

- Less economies of scale for Van Vessem ...
- ... but: circular processes where heat from the ovens is captured and re-used
Q&A
Part 2
True price framework
What is the true price?

- Sum of the market price and the true price gap of a product.
What is in a true price method

- What is the true price?
- What starting point?
- What societal impacts to include?
- How to value societal impacts?
- How do we calculate the true price of a product?
What is the true price?

- Price a buyer would have to pay for a product if the cost of *remediating its unsustainable impacts* would be added on top of its market price.
What starting point?

- Rights based
  - Human Rights
  - Labour rights
  - Environmental rights
  - Other generally accepted rights
- Internationally defined, generally accepted
- Present and future generations
- Link to sustainable development
What starting point?

- A sustainable product respects rights
- Shared responsibility
  - Governments, business, farmer, trader, retailer, investor, consumers...
  - UN Guiding principles on business and Human Rights
What societal impacts to include?
What societal impacts to include?

- Include all negative impacts that infringe on rights or international conventions
  - Linking rights with products
  - Social and environmental LCA
  - Corporate responsibility
- Include positive impacts only in some cases
  - No netting of negative with positive impacts
Economic perspective: externalities

Externality: An external effect is a societal cost or benefit that affects a party who did not choose to incur this cost or benefit.
The true price gap focuses on **unsustainable externalities**

**Unsustainable externality:** A negative externality that contributes to the breach of a generally accepted right of current or future generations.
What societal impacts to include?

**Environmental**
- Contribution to climate change
- Fossil fuel depletion
- (Other non-renewable) material depletion
- Scarce water use
- Air pollution
- Water pollution
- Soil pollution
- Soil degradation
- Land occupation
- Land transformation
- (Other) loss of biodiversity
- (Other) loss of ecosystem services

**Social & Human**
- Child labor in the value chain
- Forced labor in the value chain
- Gender discrimination
- Nationality, ethnicity, ability and other forms of discrimination
- Underpayment in the value chain
- Excessive and underpaid overtime
- Lack of social security
- Insufficient income
- Occurrence of harassment
- Employee health & safety
- Lack of freedom of association
- Breach of indigenous rights
- Breach of land rights
- Occurrence of corruption
- Negative effects on consumer health or safety
- Breaches of privacy
- Deliberate misinformation/lack of transparency
- Health & Safety Community
- Animal welfare below international standards
- Tax evasion
What is the monetary value of an impact?

- Many methods, no general agreement
- True price: *remediation cost* approach
- Rights-based: right to remedy and duty to remediate
- Prevention is better than remediation but not always possible
Decision tree monetization

- **Restoration cost**
  - restore what can be reasonably restored, especially if the impact is severe

- **Compensation cost**
  - compensate for what cannot be reasonably restored

- **Prevention cost**
  - help to prevent most severe, irreversible impacts in the future

- **Retribution cost**
  - penalty for violation of legal obligations
How do you calculate the true price of a product?

- Lifecycle approach
- Steps and requirements
- Impact specific modules
Lifecycle approach

- ISO standards 14040, 14041, 14042, 14043, 14044
- EU Product Environmental Footprint
- UNEP Handbook on Social LCA
True price assessment method

- Follows Natural, Social, Human Capital protocols
- Aspects of completeness, data quality, allocation, reporting
Impact specific modules

- Set of footprint indicators
- Set of monetization factors
- Definitions
- Guidance
### How do you calculate the true price of a product?

<table>
<thead>
<tr>
<th>Quick scan</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>Versatility</td>
<td>+</td>
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<tr>
<td>Completeness</td>
<td>+</td>
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<tr>
<td>Data quality</td>
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<td>Reporting</td>
<td>+</td>
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<td>Effort</td>
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Thank you

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