

Reports address 'true price' of agricultural commodities

Hidden costs to society are not – yet – part of the market price for commodities. However, IDH notes, there are social costs involved in the production of commodities, such as underpayment of workers, health and safety accidents, child labour, forced labour, gender discrimination, harassment and lack of freedom of association. There are also environmental costs such as land use, air, soil and water pollution, energy and material use. By adding these costs to the sales price, a 'true price' was calculated.

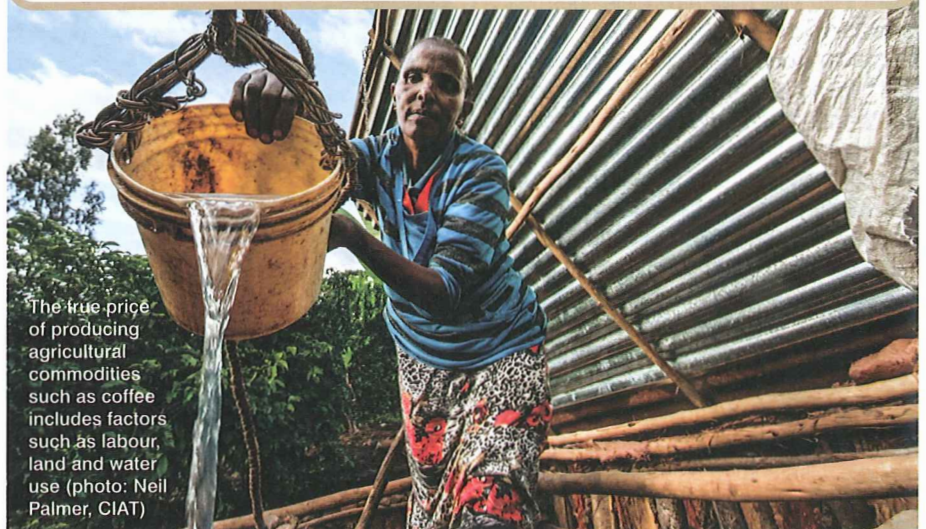
"One of the barriers for farmers, traders, retailers and consumers to reduce those costs is that they are invisible," said IDH. "For the first time, a public-private partnership with the world's largest brands calculated what those costs are. Industry players can use this information to reduce their costs with innovative projects, such as the use of agroforestry and programmes designed to enhance yield."

The first report focused on reducing the societal costs in the production of cocoa in Côte d'Ivoire, the world's largest cocoa producer; the second looked at coffee. The key findings of the cocoa report include the fact that cultivation of sustainable, certified cocoa beans results in a lower 'true price' of approximately 15 per cent. Improving yields and eliminating deforestation can reduce the true price further, by about 30 per cent and 5 per cent, respectively. The societal costs of uncertified cocoa are considerably higher than coffee from Vietnam, tea from Kenya and cotton from India, which were also calculated in reports from IDH and True Price.

Agenda-setting insights

Dave Boselie, Senior Manager Learning & Innovation at IDH, said: "These types of insights can help us set the investment agenda and facilitate collaboration with the private sector. By painting a picture of the major issues in the sector and their

Reports produced by IDH, the Sustainable Trade Initiative in The Netherlands and True Price claim to have determined the real cost or 'true price' of agricultural commodities, and have estimated costs that usually remain unmeasured



The true price of producing agricultural commodities such as coffee includes factors such as labour, land and water use (photo: Neil Palmer, CIAT)

severity, IDH is able to quantify the impact of issues now, and over time, developing a targeted strategy that generates the most change. The results are also highly relevant for the other stakeholders in our partnership, including public sector and civil society organizations that play a role in developing the enabling environment for sustainable commodity production."

In the Côte d'Ivoire study the external costs of conventional cocoa beans were compared to certified cocoa beans. The authors of the report define external costs as those caused by economic activities which are not reflected in the prices charged for the goods and services being provided. External costs can be classified as environmental costs if they have a direct effect on the environment and as social costs if they have a direct effect on the well-being of people.

Cultivation of cocoa by smallholders in Côte d'Ivoire was found to have external costs of €5.75/kg of cocoa beans. By

summing up the external costs with the farm gate price (€1.35/kg cocoa beans), a true price of €7.10/kg cocoa beans was obtained. 84 per cent of the total external costs of cultivation are social costs, 54 per cent being attributable to underpayment of hired labour and family workers. The largest other external cost drivers are land use, child labour, forced labour and lack of social security.

Certification translates into lower 'true prices'

Compared to other sectors, the external costs of cocoa cultivation are relatively high. The total external costs of cultivation, transportation and processing are €6.25/kg cocoa beans. The cultivation phase accounts for 92 per cent of the total external costs of the cocoa supply chain.

Certified cocoa has 16 per cent lower external costs of cultivation than

conventional cocoa. 60 per cent of this change is caused by higher productivity of certified farms, 10 per cent by better environmental conditions and 30 per cent by better social conditions. There are demonstrably lower rates of child labour, accidents and deforestation on certified farms. Application rates of herbicides and fertilizers are demonstrably higher on certified farms, yet this causes lower external costs per kg of cocoa beans, as yield increases.

Certified farms are on average 49 per cent more profitable than conventional farms, with a yearly profit of €341/hectare compared with €229/hectare. Working towards zero deforestation has the potential to further reduce the external costs of certified cocoa by around 6 per cent (€0.30/kg cocoa beans). Another 32 per cent of external cost reduction (€1.55/kg cocoa beans) can be obtained by improving yields, via optimizing fertilizer application rates. IDH and True Price note that more research is needed for certified and conventional farms, especially on wages, discrimination and fertilizer and pesticide application rates. This would improve the robustness of the results of this study and enhance future decision making around interventions and investment.

In the coffee study the external costs of the supply chain were investigated in order to inform decision-making for IDH's coffee programme. The external costs of conventional coffee beans were compared to certified coffee beans grown by smallholders in Vietnam.

The cultivation of smallholder coffee in Vietnam had total external costs of €1.25/kg green coffee. By summing the external costs with the farm gate price (€1.35/kg green beans), a true price of €2.60/kg green beans was obtained. 95 per cent of the total external costs of cultivation are environmental costs and 28 per cent are caused by scarce water use from over-irrigation. The other largest external cost drivers are water pollution, energy use, air pollution and land use.

The true price of 1 kg of green coffee

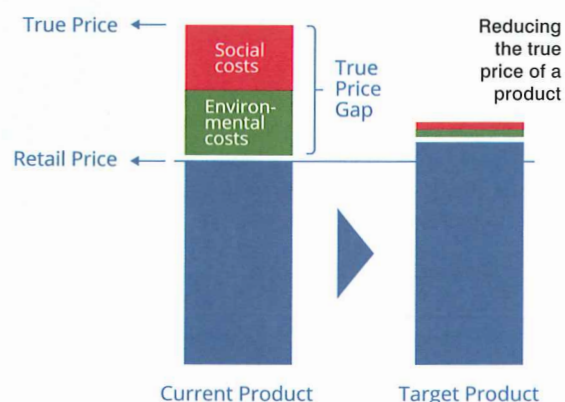


Both studies found that the true price of agricultural commodities was lower if farmers grew sustainable, certified products (photo: Neil Palmer, CIAT)

Certified coffee has lower 'true' price

IDH and True Price said that, compared to other sectors, the true cost of cultivation is lower for green coffee than, say, for cocoa from Côte d'Ivoire and cotton from India, and slightly higher than for green tea from Kenya, commodities which it also studied. The total external costs of cultivation, transportation and processing are €2.00/kg green coffee beans. The cultivation phase accounts for 63 per cent of the total external costs of the coffee supply chain.

Certified coffee has a 20 per cent lower external cultivation cost than conventional coffee with around 84 per cent of this change caused by lower water usage, 15 per cent by higher productivity on certified farms and 1 per cent by better social



conditions. Lower water usage on certified farms also reduces energy use and air pollution. The application rates of fertilizers are slightly higher on certified farms, but this does not change the external costs per kg green beans significantly.

On average say the authors of the report, certified farms are 13 per cent more profitable than conventional farms, with a yearly profit of €1,695/hectare compared to €1,472/hectare. Interventions that reduce fertilizer application by 34 per cent have the potential to reduce the external costs of certified coffee by around 15 per cent (€0.15/kg green beans). Reducing water use by 32 per cent has the potential to further reduce the external costs of certified coffee, by around by 10 per cent (€0.10/kg green beans). In total, environmental costs of certified coffee would be 25 per cent lower. IDH and True Price note that further research is needed for certified and conventional farms, especially on water use, fertilizer application rates and energy use in order to improve the robustness of the results and direct future interventions.