

Trase Finance launch webinar – Q&A

Data and methods

Please also see methodology, data sources and FAQ here:

<https://trase.finance/methodology>

How does Trase assess deforestation risk in commodity supply chains?

Trase generates indicators of “deforestation risk” using localised data on commodity production, sourcing patterns and deforestation. This indicator, measured in terms of hectares, assesses a company’s – or importing country’s – exposure to the risk that the commodity it is sourcing is associated with deforestation in the region where it was produced. For each producing region, Trase estimates the share of local output that is purchased by each company or importing country. It then assigns risk in each area proportionally to each buyer. For example, in the case of Brazilian soy, a firm that buys 20% of a municipality’s soy gets 20% of the municipality’s deforestation risk associated with soy. To allow comparisons between actors that source very different volumes, a relative measure of deforestation risk is hectares per tonne of exports. Trase assesses the deforestation risk directly associated with commodity expansion, and includes the clearance of native vegetation in all biomes where data is available.

It is important to emphasise that this measure estimates the risk that a commodity buyer (company or country) is exposed to deforestation in its supply chain, based on the jurisdictions it is sourcing from. Trase does not directly attribute responsibility for deforestation to specific companies, as data on precise sourcing patterns back to individual farms are not publicly available. Among other data sources, Trase uses information publicly disclosed by companies in its supply chain mapping. As company sourcing data become more transparent, Trase can adjust its estimates of risk exposure so as to reflect progress being made by more progressive companies.

One of the difficulties in our assessment of our clients in the beef sector is the fact that cattle move between multiple farms before slaughter. Therefore, while traders may be buying beef from areas with no deforestation, these cattle may have originally come from farms where there are deforestation issues. Are there any measures to monitor or trace this?

Trase uses a number of different datasets to map cattle movements and identify the origin of cattle slaughtered in different facilities in Brazil. This includes cattle movement

records from three state and federal sources (MAPA, INDEA, IDARON) that details the movement of batches of cattle between properties. This data does not cover all states. We therefore also use municipal-level data on the origin, numbers and ages of cattle slaughtered in slaughterhouses approved for exports by the Federal Inspection Service (SIF by its Portuguese acronym) in each state (MAPA). We use these data in cases where the available animal movement data did not cover transport to a particular slaughterhouse (mostly for the states of São Paulo, Goiás, and Rondônia), or when the specific slaughterhouse was not known but the state of slaughter was.

How were you able to obtain details on the banks' lending portfolio?

Data on company financing was sourced from a wide range of financial databases. The coverage, quality and timeliness of data varies between these data sources. In addressing these gaps that are inherent in such data we have triangulated across sources where possible and have reviewed company websites and annual reports of the largest companies. Data sources include Factset, Refinitiv, Forests and finance, AHU documents, Instrument prospectuses, Regulatory disclosures, Company Annual Reports & Financial Statements.

Is the tool able to show site specific deforestation (geo-referenced) and the actual value chain actor (deforestation driver) who contributes to deforestation?

Trase maps commodity deforestation using crop and pasture maps as well as data on deforestation (such as PRODES in Brazil). We therefore are able to assess the extent to which deforestation is linked to specific commodities. As it takes up to 5 years in some cases for deforested land to be turned into a commodity these data are forward-looking. For example, for deforestation in 2018 we estimate the percentage that will become soy in the future based on historic data on what percentage of deforestation ultimately becomes soy. You can read more about how we do this [here](#). We connect actors to deforestation risk exposure in their supply chains based on their sourcing patterns (see question above).

How does Trase Finance data build upon existing tools and initiatives such as Agroideal, Mapbiomas Alerta!, Global Forest Watch amongst others? Can such collaboration improve the available information for decision makers and the effectiveness of such tools on addressing impacts in the landscape?

Each of these tools has different target audiences and applications. We coordinate with these tools and initiatives to help users understand their differences and how they fit

together. For example, Trase uses data from Mapbiomes and the Hansen tree loss data that underpins Global Forest Watch in our assessments of commodity deforestation. Trase plays an active role working with other tool and data providers to ensure that our work is as effective as possible.

Do you expect to include some benchmarks around deforestation such as peer averages or indicate which deforestation levels should be considered unsustainable?

Currently we include a number of risk flags that act as benchmarks such as sourcing from high risk regions e.g. soy from Matopiba in Brazil or sourcing from the top quartile of municipalities in terms of their exported deforestation risk. Users are also able to benchmark their performance against peers. We will further develop these benchmarks in response to feedback from users and work by multi-sector initiatives. The purpose of Trase is not to make a judgement on what level of deforestation is considered sustainable but to identify and understand ways in which deforestation linked to commodity production and trade can be reduced, and how different actors, commodities and initiatives are progressing against sustainability goals.

Finance sector uptake

From a bank analyst point of view, would this data enable them to assess if a customer's operations are located in a deforestation hot spot?

Yes, Trase Finance can be used in client due diligence in terms of identifying and assessing their risk exposure based on their sourcing from production regions with high levels of deforestation.

What are some of the challenges that fund managers and bank analysts might experience in integrating the data?

Data on corporate identifiers was identified as a key need by banks and investors to enable them to match their portfolios with Trase data. Therefore Trase Finance includes data on identifiers such as Legal Entity Identifier (LEI), PERMID, ISIN, Ticker etc.

We will also develop a public API to enable banks and investors to directly integrate Trase Finance data into their existing systems and processes.

What, if any, internal incentives and preventative measures exist for investment teams within banks / asset management firms etc. to divert funds away from companies involved in deforestation?

We are still in the process of mapping specific user roles and data needs within banks and investment organisations to better understand how Trase data can support and expedite a change in the flow of capital towards more sustainable businesses. As part of this process we will also be gaining a better understanding of incentives or the lack of them that encourage decision makers to provide finance to deforestation free companies. Currently, based on very incomplete data, incentives to divert funds away from companies linked to deforestation are few but sustainability-linked metrics are becoming a more accepted means of linking individuals performance to bonus awards.

Clearly in the case of illegal deforestation there exists a very clear incentive for banks and investors to act immediately where links to illegal deforestation can be made to those companies they are financing (although this information is often difficult to access).

Disinvestment should be seen as a last resort and investors should be encouraged to carry out robust engagement with those portfolio companies that are most closely linked to deforestation. Bonus awards for example could then be partly linked where appropriate to successful engagement leading to changes in company activities that clearly show progress towards more sustainable outcomes.

From an investor point of view, is there a list of key questions and or instructions to ask asset managers to assist in this coordinated approach?

UN PRI and Ceres Investor Initiative for sustainable forests has put together investor expectation statements for soy and cattle that can be accessed [here](#). The PRI working group of investors on sustainable palm oil also has an investor expectation statement [here](#). These statements lay out the questions that investors should be asking companies.

I would be interested to hear more about using the tool for positive impact investing (rather than just risk mitigation/exposure). Are there any examples of how it can be used to identify “best practice” actors - or innovative enterprises?

There are several ways that Trase Finance can support activities to identify those companies and financial institutions that have low or no exposure to deforestation. Each of the company profiles provides a series of risk flags that can be used to identify companies that have low risk exposure and strong policies to mitigate risks.

In some instances companies have taken steps to reduce their risk profiles through time. Trase Finance provides time series data that allows users to visualise changing risk profiles by commodity and country that can indicate those companies that are making progress towards peer group leading performance on deforestation.

Trase Finance users are also able to access company ranking data, allowing for benchmarking of companies against their peer group for exposure to deforestation risk. By focusing on the low risk end of the ranking, users are able to quickly identify those companies that could be considered as employing 'best practice'. Users can compare exposure data with company response or governance measures provided in the policy section of the company profile pages to get a more complete picture of risk and response, where low risk and strong governance can potentially serve as a proxy for companies with low impact.

Future expansion

What's the timeline for including other agricultural commodities on Trase Finance, for example cocoa and rubber?

Trase Finance will extend its coverage to the exports and imports of Argentinian soy and Paraguayan soy and beef exports in 2021. Further extensions in coverage in line with the commodities mapped by Trase Earth will depend on clear user needs and securing further funding.

Trase will map supply chains of cocoa exports from Cote d'Ivoire and Ghana in 2021 and resource depending we will then be able to map ownership and investment patterns of these supply chains in Trase Finance

A key demand from financial institutions has to be the disclosure of the geo-location of assets of the company they invest in to better identify deforestation risk. How does Trase Finance use such a spatial finance approach?

Trase uses data on the geo-location and company ownership of assets, such as soy silos, slaughterhouses and mills, in its mapping of supply chains, sourcing regions and associated deforestation risks. This data is available for download [here](#). We plan to integrate this asset data into the company profiles in Trase Finance.