The Big Read Glencore

Glencore: an audacious business model in the dock

Will a US probe into possible bribery and corruption force one of the world's biggest mining and trading groups to rein in its risk-taking culture?

Neil Hume, David Sheppard and Henry Sanderson in London JULY 6, 2018

In a sleepy Swiss town 30km from Zurich sits one of the companies that keeps the global economy ticking, supplying the raw materials that touch every facet of modern life from mobile phones to automobiles and petroleum.

Since its creation 44 years ago Glencore has become the biggest commodity trader in the world. But with that has come notoriety and this week the attentions of a US Department of Justice investigation into bribery and corruption that some believe will force the Switzerland-based group to change its business model.

As well as being a major miner, it is the ultimate middleman, moving millions of tonnes of commodities across the globe, linking the suppliers of raw materials — often in developing countries — with consumers in wealthy and fast-growing ones, earning wafer-thin margins on large volumes along the way.

But what sets Glencore apart from its peers is its appetite for risk, at times pushing the limits of what is allowed in the modern global economy.Glencore's billionaire chief executive Ivan Glasenberg, who has helped expand the company's operations to 50 countries, is prepared to go where others fear to tread. That includes some of the poorest and most corrupt countries in the world.

An open-pit copper and cobalt mine in Mutanda, Katanga province, the Democratic Republic of Congo © Bloomberg

"When the DoJ issues a subpoena like that they have to believe there's something to it," says one mining lawyer. "They are looking for transactions that don't pass the smell test."

London-listed Glencore commands a market capitalisation of about £63bn and builds mines and strikes oil and gas deals in some of the most challenging jurisdictions, backing itself to manage the political risks and volatility inherent in developing countries.

This approach to business has made Mr Glasenberg, a South African-born accountant famed for his sharp tongue, and his coterie of key lieutenants fabulously wealthy. But it has also made the

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company a target for regulators.

On Tuesday, the DoJ ordered the company to hand over documents and records relating to possible corruption and money laundering in Nigeria, Venezuela and the Democratic Republic of Congo over more than a decade, realising the worst fears of bankers, investors and analysts. “It’s not just the fact that it could face a substantial fine,” says Ben Davis at London brokerage Liberum, “everyone is worried about what else they have got in the closet.”

Glencore’s payments to governments in 2017

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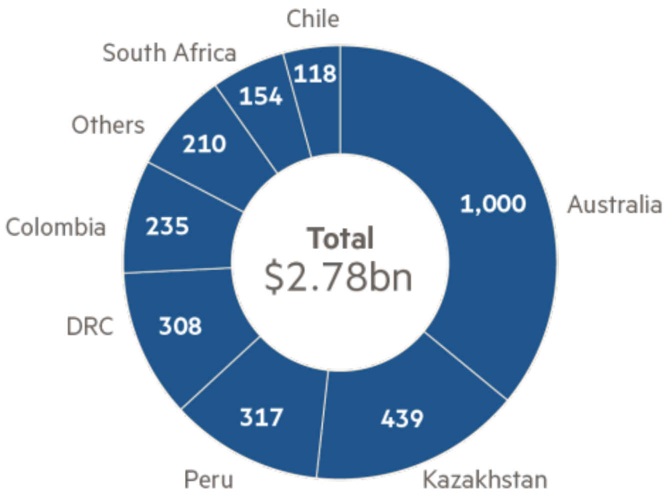

Source: company
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If the DoJ decides to go ahead with an investigation, which analysts and lawyers say seems likely, Glencore could be hit with a hefty fine or even criminal prosecutions, depending on the upshot. The company could also face intrusive monitoring by the DoJ, that could restrict its ability to do business in some parts of the world.

“These investigations tend to last on average two-to-four years,” says Mike Koehler, a legal professor specialising in the US Foreign Corrupt Practices Act. “One shouldn’t expect a resolution of Glencore’s scrutiny any time soon.”

Glencore grew out of Marc Rich & Co, whose eponymous founder was regarded as the godfather of modern commodity trading. Outside the industry he was best known for fleeing the US to avoid federal indictments related to tax avoidance and trading with Iran, before being controversially pardoned by President Bill Clinton in 2001.

Mr Glasenberg took the strategy of Mr Rich, refined it and made it more palatable for investors, before supersizing its operations. It was a plan that transformed Glencore into a behemoth that would go public in 2011. But it never fully lost its scrappy edge. If anything, Glencore grew more confident.

“When it comes to being faster, more aggressive and taking chances and opportunities this is part of the DNA of the company,” says Daniel Ammann, author of a book on Rich.

Glencore CEO Ivan Glasenberg

Sanctions have become a favoured tool of the US to extend its influence beyond its borders, especially when dealing with countries awash with natural resources. Wary of disrupting the global economy, Washington has mainly tried to use sanctions as a way to target individuals and companies rather than cutting supplies off at source.

In this grey area Glencore sniffed profits in acting, on occasion, as a bridge between sanctioned companies and international markets. While Glencore has always said it operates within the law, the highly lucrative strategy has made the company very visible in Washington.

In the past couple of years, it has been involved in several deals and announcements that did not go unnoticed in the US. Possibly the most audacious involved Glencore and its biggest shareholder, Qatar Investment Authority, striking a deal in December 2016 to buy a 20 per cent stake in Rosneft — which was under Ukraine-related sanctions — from the Russian state.

Israeli businessmen was placed on a US sanctions list in December

For his dealmaking efforts Mr Glasenberg was awarded a Russian Order of Friendship by President Vladimir Putin to go alongside access to millions of barrels of Rosneft crude.

Yet it is Glencore's involvement in the DRC, a desperately poor but resource-rich country, which is probably of most interest to US regulators. In particular the company's relationship with Dan Gertler, an Israeli businessman who was placed on a US sanctions list in December for his "corrupt and opaque mining deals in the DRC".

Washington alleges that Mr Gertler used his "close friendship" with Joseph Kabila, the country's president, to act as a middleman for mining asset sales in the DRC. Mr Gertler declined to comment.

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Glencore has assets in the DRC that analysts value at up to $10bn, but denies that it secured entry to the country's vast copper belt through deals with Mr Gertler. Instead, it says it ended up in business alongside him when Glencore independently acquired interests in the country. In a bid to distance itself from the billionaire, Glencore last year paid Mr Gertler's Fleurette Group $534m to buy his stakes in Glencore's two key DRC mines, Katanga and Mutanda. But Glencore did not sever all its ties to the businessman. Mr Gertler was still due royalty payments as part of rights he had obtained from Gecamines, the country's state-owned mining company.

Glencore stopped those payments when Mr Gertler was sanctioned by the US. But in April Mr Gertler obtained an order from a local DRC court freezing Glencore's assets in the country and seeking almost $3bn in payments.

The move put Glencore in a bind. Rapid growth in demand for cobalt, a key material for electric car batteries, has made its assets in the DRC — which sits on half of the world's known reserves of the metal — even more valuable. Cobalt prices have more than doubled to almost $40 a pound in the past two years.

"The boom in cobalt is the game-changer here," says Anneke Van Woudenberg, executive director of RAID, a non-profit group in London. "The money to be made is immense."

In June Glencore agreed to pay Mr Gertler in euros to avoid falling foul of US sanctions. It was "the only viable option" to avoid the seizure of its DRC assets, Glencore said.

The announcement shocked many observers: a FTSE 100 company paying a sanctioned individual millions of euros was seen as a bold challenge to the US. Glencore said it had consulted with the appropriate authorities in the US and Switzerland about the payment.

But just hours after the deal was announced, the US Treasury slapped new sanctions on 14 companies with ties to Mr Gertler, 17 days later Glencore revealed news of the DoJ subpoena.

Democratic Republic of Congo president Joseph Kabila. Glencore has assets in the DRC that analysts value at up to $10bn

Glencore's activities in Venezuela and Nigeria, two big oil producing countries, are also under DoJ scrutiny, suggesting a broader interest in the company's operations.

Large-scale physical oil trading often involves operating in countries where it is difficult to secure business without working with agents or well-connected individuals. And Glencore has grown to become the world's second-largest independent oil trader, moving up to 6.5m barrels a day of crude and refined fuels.

It often gets access to the barrels it needs to power its trading machine through long-term agreements, providing financing to cash-strapped countries and companies in return for a share of future oil output. These deals are often negotiated with help from middlemen, although agents are used less today than a decade ago.

The company's presence in Venezuela and Nigeria is relatively small, with no large producing fields, refineries or major storage plants. But the two countries — both Opec members — are also major importers of refined fuels, making them rich hunting grounds for the largest physical traders to do business.

Glencore is among a group of trading companies recently named in a lawsuit linked to Venezuela's state oil company PDVSA, alleging that the traders bribed employees to provide inside information. Glencore declined to comment.

It is not the first time Glencore has found itself in a tight corner. In 2015 a debt crisis brought the company to its knees. However, the DoJ subpoena under money laundering statutes and the FCPA is arguably the biggest challenge to the way it does business.

The key question is how Glencore responds. Under pressure from the US, some rivals think it will be forced to dial back the risk-taking culture to focus on running its mining operations.

"This will be hugely disruptive," says a former mining executive who has experienced a US investigation. "Millions of emails will be read."

But others question just how much Mr Glasenberg, who has been at the helm since 2002, will be prepared to change. His first reaction was to launch a $1bn buyback of Glencore shares in a show of confidence in its underlying business.

"Will Glencore be sterilised by this? Given its culture, who they are, their perception of risk versus others, that would be a massive sea change," says Liberum's Mr Davis. "Glencore is always chasing a dollar."

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