Glencore

Glencore begins the changing of the old guard

Departure of trader's head of copper signals break-up of 'billionaire boys' club'

Some of Glencore's senior lieutenants, from left to right: Tor Peterson, Ivan Glasenberg, Alex Beard and Telis Mistakidis © FT montage / Bloomberg

Henry Sanderson and Neil Hume 5 HOURS AGO

The impending retirement of Glencore's copper kingpin Telis Mistakidis marks the start of a generational shift at the top of the world's most powerful commodity trader.

While some senior executives have left the Swiss-based group since its 2011 stock market flotation, none of the inner circle surrounding the company's workaholic boss Ivan Glasenberg have left — until now.

The departure later this year of 56-year-old Mr Mistakidis signals the break-up of the so-called billionaire boys' club, which built risk-hungry Glencore into the commodity industry's dominant and most talked-about company, according to analysts, bankers and investors.

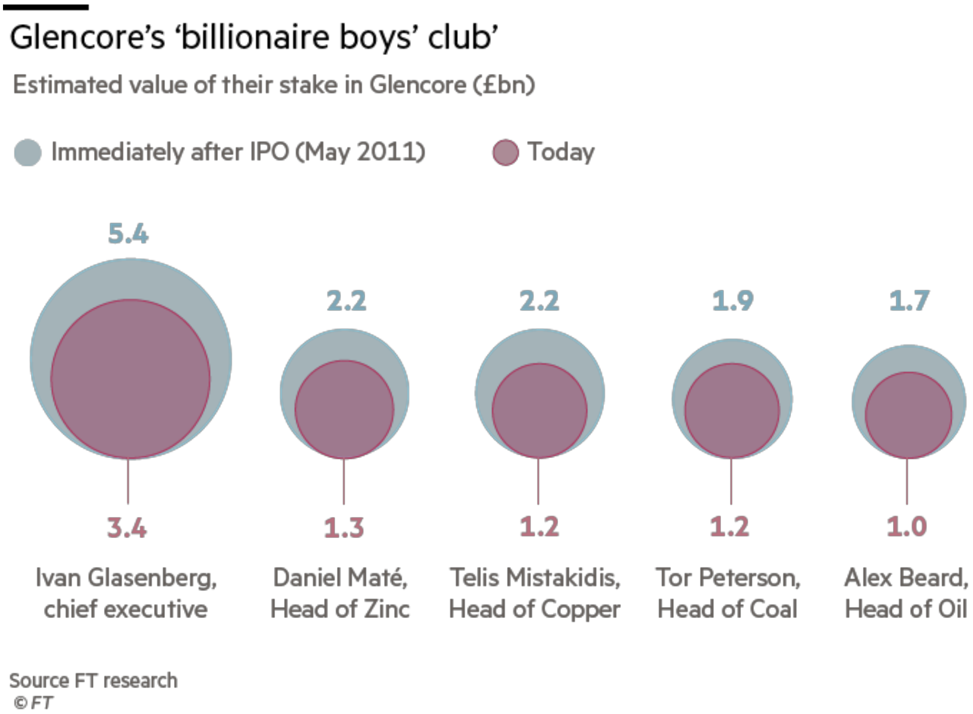
The leadership changes come as Glencore faces a string of legal challenges, including a US Department of Justice investigation into possible corruption and bribery that has put its business model under the microscope.

"They are facing attacks on multiple fronts," said Anneke Van Woudenberg, executive director of Rights and Accountability in Development, a campaign group.

"This has got to be creating headaches. They are all focused on the same central question: fraud, corruption and misreporting. The whole business model is coming under question."

Mr Glasenberg would not be drawn last week on any connection between Mr Mistakidis's retirement and investigations facing the company over its activities in the Democratic Republic of Congo, one of the poorest and most corrupt countries in the world.

Feedback



"He's decided to retire and pass on the baton to the next generation," Mr Glasenberg said. "None of us expect to stay here forever," he added.

But analysts have questioned the management changes.

"It's one of those where you don't know whether this is being done to appease the regulators, and has been done with their consultation, or if they're just trying it out hoping to get them off their backs," said Ben Davis, an analyst at Liberum.

Others say Glencore, which has an appetite for risk that few of its peers can stomach, is doing what it always does and moving quickly to get in front of a problem.

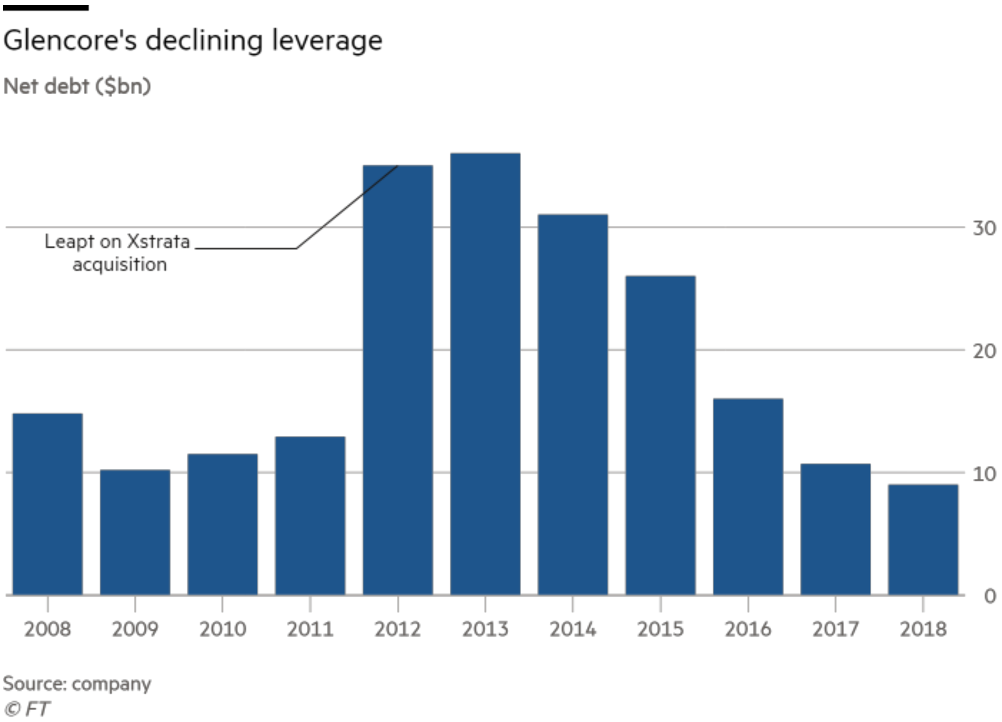
"They're trying to be on the front foot, they're the most reactive company in our sector," one banker said. "When things happen they react very quickly."

One such example was in late 2015 when, following a dive in its share price to a record low because of growing concerns about its ability to manage a huge debt pile, Glencore moved swiftly to strengthen its balance sheet, shelving its dividend, selling assets and raising money from shareholders.

This time, it is the looming investigations by the DoJ and Canada's Ontario Securities Commission, which have rocked the company. In July, Glencore said it had been subpoenaed by the DoJ for documents concerning its business activities in the Democratic Republic of Congo, Venezuela and Nigeria going back to 2007.

Canada's OSC is looking into accounting irregularities at Glencore's subsidiary Katanga Mining, which owns a copper and cobalt mine in the DRC that Mr Mistakidis previously managed.

In addition, prosecutors in Brazil recently announced that Glencore, as well as its rivals Vitol and Trafigura, were under investigation on suspicion of paying bribes to employees of state-controlled oil company Petrobras in exchange for contracts.



These investigations have weighed on Glencore's share price, which is down 29 per cent this year.

Glencore grew out of Marc Rich & Co, whose eponymous founder was regarded as the godfather of modern commodity trading. Since 2002, when Mr Glasenberg took the helm, it has been run by a tight-knit group of traders who have been at the company since the 1990s.

The most senior lieutenants are Daniel Maté, head of lead and zinc trading; Tor Peterson, head of coal trading; Alex Beard, head of oil; and Mr Mistakidis.

They remain fiercely loyal to Mr Glasenberg, in part for his realisation that Glencore needed to expand beyond pure commodity trading into mining as commodity markets became more transparent and technology made information more widely available. Glencore became one of the world's biggest miners in 2013 when it purchased Xstrata in an acrimonious deal.

Mr Glasenberg also made them fantastically wealthy after Glencore's $60bn flotation in 2011. Mr Mistakidis and Mr Maté have retained equity stakes worth about £1.2bn each.

"The management has been here a long time since the float, even though people thought since 2011 that a lot of the senior executives would leave," said Mr Glasenberg. "They haven't . . . and there comes a time when the next generation needs to take over."

Some think the management changes announced by Glencore last week also reflect its evolution from a commodity trader to a company that makes most of its money by extracting raw materials from the earth.

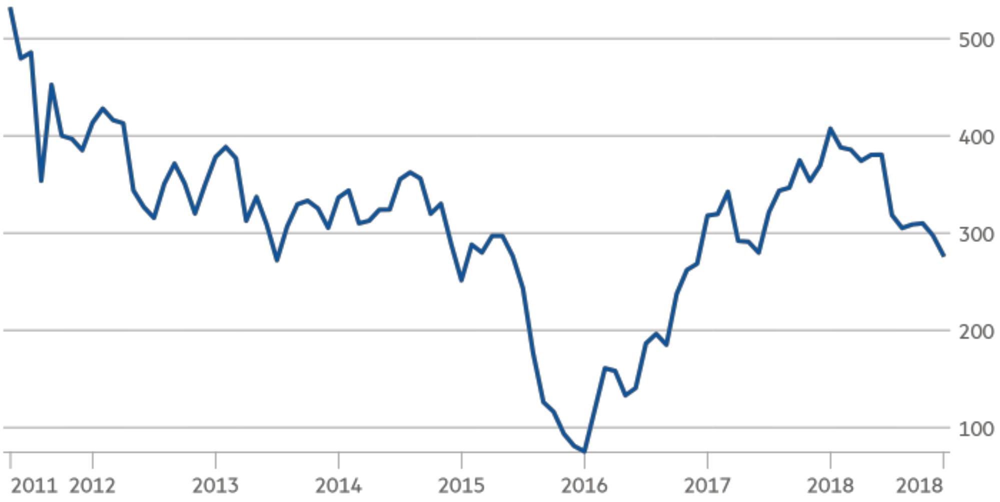
Glencore named Peter Freyberg, a former Xstrata executive, as its head of mining, a new position that reports directly to Mr Glasenberg. It also confirmed the retirement of Stuart Cutler, the veteran head of ferroalloys trading, and Mark Catton, the head of liquefied natural gas.

"What you're seeing is a change in Glencore's structure that mirrors its evolution from a private trading company to one of the world's largest mining companies," said Paul Gait, analyst at Bernstein Research.

"If anything, the turbulence of the last year has forced investors to ask more questions about the company, about management procedures; whereas before people were focused on the dollars and cents and tonnes out of the ground. Now there's an increased awareness that these kinds of things have become just as important," added Mr Gait.

Glencore's stock performance since IPO

Share price (pence)



Source: Refinitiv
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As the regulatory investigations progress, bankers say attention is likely to turn to Mr Beard, who is in charge of oil trading in Nigeria and Venezuela — two key areas of the DoJ investigation. In a recent report, analysts at Barclays raised the prospect of Glencore exiting so-called agency trading in its oil business.

During last week's update with investors, Mr Glasenberg hinted at further senior management changes, adding there was a "very good bench of people ready to take over".

"So over the next two to three years, you may get another change, but you may also get one or two changes. I don't know," he said.

Above all, investors are most interested in who will eventually replace Mr Glasenberg, who turns 62 in January and plans to retire in the next three to five years if he has found a suitable replacement.

Mr Glasenberg says he has a provisional shortlist of candidates, some of whom are running business lines, and that the ideal replacement would look much like himself and be about 45-years-old.

That effectively rules out the current crop of top executives, but puts those like Gary Nagle, the hard-charging South African who was named as the head of Glencore's power coal business last week, into the spotlight.

Indeed, many bankers think Glencore's next chief executive will have to come from the mining side of the business rather than trading.

"I've got my eye on a few guys," Mr Glasenberg told journalists last week. "There's three to four guys who could potentially be there."

DRC president defends Glencore and former partner Gertler

Joseph Kabila, president of the Democratic Republic of Congo, defended Glencore and its former

partner Dan Gertler, both of which have faced US allegations of corruption linked to their operations in the central African country, *writes Tom Wilson in Kinshasa*.

Mr Gertler, who partnered Glencore in Congo for a decade, was sanctioned by the US government last year for alleged bribery, while Glencore in June said the US Department of Justice had requested information relating to its dealings in Congo and two other countries.

“I do not want to pronounce myself on any [US justice] issues with Glencore and other companies,” Mr Kabila said.

“They haven’t been found at fault with our own system and if at all there is any problem with the system in America we are very much free and open to discuss these issues with them. They’ve not done that as yet,” he said.

Mr Gertler first met Mr Kabila in 1997, four years before he became president, and the two men struck up a lasting friendship that helped Mr Gertler turn a diamond trading business into a mining empire with stakes in copper, cobalt, gold, iron and oil projects across the Congo.

He teamed up with Glencore in 2007 and was an investor in two of their mining projects in the country until the Swiss commodity trader acquired his stakes last year, 10 months before he was slapped with US sanctions for allegedly making corrupt payments to Mr Kabila — a charge both men deny.

“I have known Dan Gertler since 1997,” Mr Kabila said. “He came, wanted to do business in the Congo, has been doing business in the Congo [and] definitely we want him to continue to do business in the Congo.”

In power for 17 years, Mr Kabila is preparing to stand down after landmark elections this month, but says he has no plans to leave politics.

Glencore’s relationship with the Congolese government has been more complicated. The trading-cum-mining giant is Congo’s biggest investor, having spent more than $6.5bn in the country, but has faced a difficult 12 months fighting battles over a joint venture with the state-owned miner and a new mining code, which raised taxes.

“I believe it has been on and off,” Mr Kabila said of his relationship with Glencore.

“Glencore was one of those companies that didn’t want to see a change in the mining code,” said Mr Kabila. “Of course, they came up with other proposals which we did not accept and we adopted the mining code. So it has been on and off but I hope that it will be constant as we move forward.”

The new legislation boosted royalties on most metals, increased taxes and cancelled a 10-year stability clause that should have protected Glencore and other miners from complying with the changes until at least 2028.

Despite initial threats from Glencore and others to seek international arbitration to block the reforms, no such action has been taken to date and mining activity has continued, largely unchecked.

“We believe that the mining companies were not paying sufficiently what was due to the state,” Mr Kabila said. “Since the mining code came into effect the tendency is that we are going to multiply our revenues.”

Mining revenue in the first nine months of the year has already more than doubled to $1.21bn, compared with $489m a year earlier, according to the finance ministry.

Glencore, which is one of the country’s biggest taxpayers, paid a total of $1.1bn to the government in taxes, royalties and other contributions in the two years from 2015 to 2017, in addition to separate investments in healthcare, education and social development projects, according to company filings.

In a statement, Mr Gertler’s Fleurette Group said: “We are proud to be recognised as such a valuable contributor to the growth and development of the Democratic Republic of Congo.

“As we have said many times we have always acted appropriately and with integrity in all our dealings there. Our mission has always been to bring in valuable investment in the absence of others being prepared to believe in the country, its people and its huge potential.”

Glencore declined to comment.

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