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## What is Glencore?

Millions of Britons will have a stake in the mining giant's future

When the American energy giant Enron collapsed a decade ago, there was much recrimination when it became evident that journalists had spent years in thrall to a company that they did not understand. It became (too belatedly) apparent that Jeff Skilling, Enron's president, and Andrew Fastow, its chief financial officer, had operated in a shroud of secrecy, allowing fraud to flourish. The savings of investors and pensioners had been wrapped up in a company that no one understood.

Next week a company comes to market that again demands careful scrutiny, lest investors and owners of pension funds once more find themselves bilked. Glencore is a huge and secretive Swiss-based commodities trader with high profits and a low profile, whose activities in everything from copper to corn affect almost everyone on the planet. Its flotation on the London Stock Exchange will raise \$11 billion, making it one of the biggest ever, and will value the business at \$61 billion. That is six times larger than Marks & Spencer.

The sale will also enrich a lot of people. It will make not only directors such as its CEO Ivan Glasenberg billionaires, but also fatten the fee

income of the 23 banks that are advising Glencore on the offering and which are, thus, effectively paid not to delve too nosily into its profitable dealings. So in spite of Glencore issuing a 1,637-page prospectus, we struggle to discern with any clarity how this colourful and mysterious company operates.

This is of concern because Glencore, on account of its size, will not only be fast-tracked into the FTSE 100, but will wield huge influence in the index's valuation. One consequence is that Glencore's arrival will reshape the contours of every pension fund as investments that track the FTSE 100 are forced to buy its stock. People who last week did not know that Glencore existed will find they have a stake in it thrust upon them. Moreover, British investors will find themselves more exposed to sectors — commodities and mining stocks — that are prone to often giddy volatility.

The horizon of our knowledge of Glencore does not yet stretch far enough. From what we can see, Glencore is a mining investment house whose dealings, being run from Switzerland, are not very transparent. If Mr Glasenberg achieves his ambition of transforming Glencore by taking over

Xstrata, the miner in which it owns a 34 per cent stake, to become a rival to BHP Billiton and Rio Tinto, then he must swap his skulking-in-the-shadows management style to one more open and appropriate for the boss of a listed company.

Second, Glencore's trading operations are very complex, and it has not striven unduly to explain them. This is a worry not just because mining is a world dogged by sharp practice, but also because Glencore's dominance enables it to stockpile commodities and thereby mould the marketplace. And because it trades overwhelmingly in physical goods, Glencore moves in an arena not subject to the same standards of regulation as markets for financial instruments. Third, while all companies seek to minimise their tax bill, Glencore, not solely by choosing to locate in Switzerland, does so very aggressively.

Glencore's activities warrant close scrutiny because its behaviour as a London-listed public company will colour not only capital markets and the character of capitalism, but also the reputation of the City of London. Failure to monitor Enron was a mistake. To now fail properly to examine how Glencore ticks would be a blunder.

## Dark side of City's secretive new giant

David Robertson, David Charter  
Girish Gupta

An international company set to become Britain's largest stock market listing is mired in allegations of corruption, tax evasion and environmental damage, *The Times* has learnt.

Glencore International has been accused of defrauding taxpayers of millions of euros in the most serious bribery plot to hit the European Commission in its 50-year history.

Just days before Glencore lists on the London Stock Exchange, with an expected valuation of £38 billion, it has emerged that the commodities trader is one of fifteen suspects in a corruption case being prosecuted in secret in Belgium.

For a period of more than four years a Glencore subsidiary is alleged to have procured lucrative market-sensitive information from a mole deep inside the EU bureaucracy.

A Dutch Eurocrat at the centre of

## Sound investment or a punt in the dark?

Ian King, pages 12, 13

the investigation, Karel Brus, was allegedly offered thousands of euros in cash, holidays, cases of wine by the alleged conspirators, according to the court papers.

Mr Brus, 61, has been suspended on full pay since 2003 while investigators try to untangle an alleged web of corruption centred on the leaking of cereal prices and quotas.

Glencore Grains Rotterdam, a subsidiary of the Swiss-based company, and one current and one former employee of the company have been charged with corruption and are expected to stand trial this year.

The revelations about the case are hugely embarrassing for the company just days before it looks to raise \$11 billion (£7 billion) from investors.

Continued on page 12, col 1



## News Glencore

# Dark stains on the reputation of City's secretive new giant

## THE TIMES Investigation Inside Glencore

Continued from page 1

Glencore's flotation will create five billionaires and at least 480 multi-millionaires in what has been described as the biggest wealth creation exercise in history.

The commodities trader will go straight into the FTSE 100 index of leading companies, requiring most large pension funds and investment managers to hold its stock. That means millions of people with pensions or ISAs will own a small part of Glencore.

"Many will want to be sure that a company with a history of sanctions busting and trading with pariah regimes has reformed its ways," one City analyst said.

The Times launched an investigation looking at how the company operates in Colombia, Zambia, Russia, China, Belgium, Switzerland and the UK. In addition to the European bribery case, the findings included:

- Glencore's Colombian subsidiary is operating on government-owned land that was forcibly taken from the previous residents by paramilitaries. At least 18 people were murdered in a six-month campaign of terror against the residents of El Prado in the north of the country;

- more than 30 MEPs will present a petition to the European Commission next week calling for a moratorium on European financing of mining projects in Africa after tax-avoidance allegations against Glencore in Zambia. Glencore has denied these allegations and said that it paid the correct amount of tax in Zambia;

- Glencore's environmental protection has been questioned after it emerged that two of its metals plants in Zambia are consistently exceeding limits for sulphur dioxide emissions. The failings are detailed in a report by a mineral expert included in the company's listing prospectus. Sulphur emissions can cause respiratory diseases and create acid rain that destroys vegetation.

Brief details of the Belgian case were contained in the prospectus issued by Glencore this month for its public flotation. But court papers seen by *The Times* show the full extent of the plot that threatens to embarrass the company and undermine the European Union's much maligned Common Agricultural Policy.

Glencore is alleged to have received information during a four-year period from 1999. In 2002-03, the alleged fraud helped the company to earn more than €7 million from the EU budget, according to court papers.

Mr Brus, the Eurocrat at the centre of the affair, is alleged to have passed market sensitive details to Glencore Grain Rotterdam, a fellow Dutch cereal company Codrigo and a French agricultural body. As a trusted senior

### Rich pickings

1974 Marc Rich, below, founds a trading company with money borrowed from his father-in-law  
1975 Marc Rich & Co has turnover of \$1 billion in its first year thanks to the first oil price shock  
1980 Marc Rich & Co trades more oil daily than is produced by Kuwait. Company turnover \$15 billion

1979-81 Fifty-three American hostages are held in Tehran. The US imposes sanctions on Iran but Rich continues to trade Iranian oil  
1983 Rudy Giuliani, US attorney for the Southern District of New York, indicts Rich on 51 counts of tax evasion, racketeering, fraud and trading with the enemy. Rich becomes a fugitive in Switzerland  
1994 Rich gambles on the zinc market and loses. He is forced to sell his company to its management, who rename it Glencore

2001 Rich is pardoned on the last day of Bill Clinton's presidency, causing controversy as Rich's former wife is large donor to the Democrats  
2002 Ivan Glasenberg becomes chief executive. He joined the company in 1984 as a coal trader. His Glencore shares are now worth \$9 billion  
2002 Xstrata lists in London with a market value of £2 billion. Xstrata was spun out of Glencore in 1999 and is now valued at £42 billion

2010 Glencore announces it will become a public company in London's largest flotation

2010 Glencore announces it will become a public company in London's largest flotation



The headquarters of Glencore International in Baar, Switzerland

member of the Commission's agriculture department, Mr Brus was able to obtain and transmit market-sensitive decisions to his paymasters, including Glencore, giving it a decisive advantage over its rivals, it is alleged.

It is also alleged that, during a 20-month period, at least 3,178 calls were made from a mobile phone given to Mr Brus by his Glencore handlers — conversations that investigators believe included the leaking of sensitive information.

The Belgian Federal Prosecutor and the Commission declined to comment yesterday on the case, which was initially reported by the French radio station France Inter. Glencore said that details of it were in its prospectus and declined to comment further.

The affair has thrown unwanted light on the company as it prepares for

its huge flotation. Glencore was founded in 1974 by Marc Rich, at one time the world's most wanted corporate criminal, and it has grown rapidly since. Once floated, it will be six times bigger than Marks & Spencer and more than twice as big as BT.

Glencore will be only the third company to go straight into the FTSE 100, making it a British blue-chip with access to the vast capital resources of the City of London.

The company is owned by 485 of its employees and they will reap enormous rewards from the flotation. They will have average stakes worth more than £67 million each while a handful of senior executives will join the ranks of the world's richest people.

Ivan Glasenberg, the chief executive, will have shares worth £6 billion and four of his colleagues will become billionaires. Some of these men are barely in their forties, such as Alex Beard, the head of Glencore's London office, who is 43 and will be worth more than £17 billion.

Glencore has generated its wealth by moving metal, coal, oil and grain from source to market. It uses its market intelligence to buy at the lowest price and sell at the highest. For example, if coalmines in Queensland have to shut down because of heavy rain, the sudden supply shortage will cause coal prices to rise. If Glencore's traders can be the first to know of problems in Queensland, they can buy coal in Indonesia and take advantage when the prices rise.

Everything at Glencore is geared to being the first to know about world events. This has created a highly competitive and secretive culture, as traders jealously guard their intelligence from rivals.

In the 1980s, Glencore realised that if it directly owned mines or farms it would be able to take advantage of these sorts of situation even faster and the company has been acquiring assets from Colombia to Congo ever since.

But this is a very expensive strategy because billions of pounds have to be sunk into a mine before it starts producing returns. It has become increasingly difficult for Glencore's partners to fund the scale of development needed so they are seeking new capital by listing their shares.

Much of the £7 billion that will be raised in the flotation will be used to expand mines such as Prodeco, a huge coalmine in Colombia.

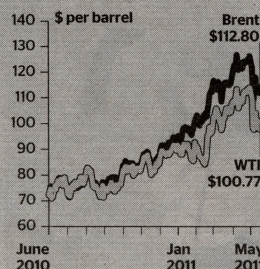
About 18 per cent of Glencore's stock will be sold to investors initially with the primary listing in London and a secondary offering in Hong Kong. Investors will be buying into a company that has proved itself a brilliant trader but also one with a poor reputation in mining.

Senior executives from some of the world's largest mining companies have told *The Times* they believe that what some regard as the fast-and-loose attitude at Glencore is not conducive to the focus on environmental protection and worker safety required by miners.

Analysts who know Glencore attribute this attitude to the culture created in its early days by its founder Mr Rich.

### HOW ARBITRAGE WORKS

1 Oil prices differ across the world. In the US the price quoted is for West Texas Intermediate (WTI) crude. Europe uses the Brent price



### HOW GLENCORE MAKES MONEY FROM COPPER

- 1 Copper ore is extracted by Glencore or purchased from other miners  
Copper purchase price approx \$9,000/tonne
- 2 Storage and logistics \$18/tonne
- 3 Warehouse storage rent \$2/tonne
- 4 Freight \$15/tonne
- 5 Insurance financing over 30-day period \$12/tonne
- 6 Sold to consumers for \$9,080/tonne

**\$23/tonne profit\***

\*Based on Barclays Capital estimate

### Ian King, Business Editor, assesses the financial options

## Is this a sound investment ...

**G**lencore is the world's largest commodity trader and, as such, is the leader in a highly profitable field.

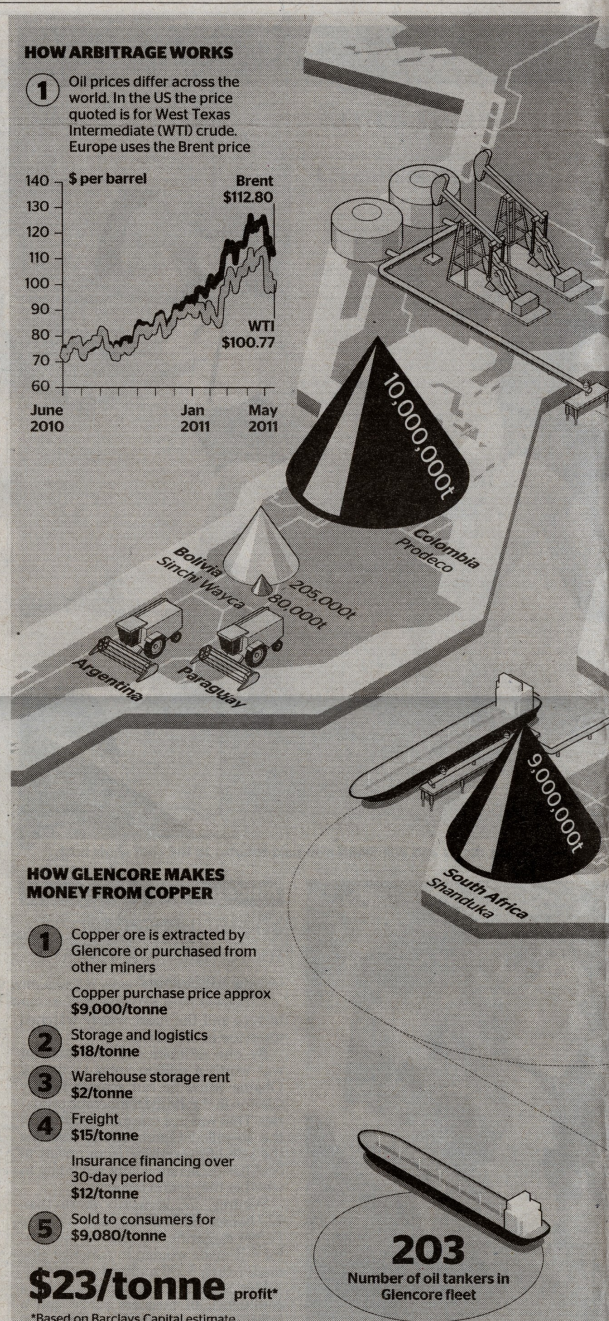
Its activities span the globe, which means that the company's decision to float on the London

Stock Exchange is a huge coup for the City and for Britain.

This immensely profitable company controls almost two thirds of the world market in zinc, half of the market in copper and nearly a quarter of the aluminium market, along with important positions in other sectors including oil and grain.

Glencore's profits are not only huge, they are growing, because of its unique exposure to booming demand for commodities from emerging markets such as India and China. Brokers predict that, during the next two years, earnings will more than double to \$12.9 billion (£8 billion).

Floating on the stock market will allow Glencore to grow even more rapidly in the future. It will have





## Glencore News

## An untaxing existence is about to get even easier

Roger Boyes Baar, Canton Zug

The London Metal Exchange is still open, the Chicago grain market still closed, but in Baar it's time for the special of the day: beef tartare with truffle oil and quail's egg followed by chocolate mousse. A picnic for 34 Swiss francs (£23.95), courtesy of the world's most secretive commodities trader.

Despite the large yellow parasols, the sun beats down on the open-air canteen at Glencore's headquarters and there is a giddiness about the place. "It's Friday," says Angie, the waitress, explaining why so many traders are in T-shirts. What she means is: it's the Friday before the week when most of her customers get very rich indeed, so forgive the carnival atmosphere.

Nobody seems to be paying attention to the surveillance cameras around the building, and in the restaurant, at least, no one seems fretful about wobbly commodity prices. It is as if everybody has inhaled helium.

Naturally the village — where the smell of cow dung wafts down the high street — hopes that the overnight creation of a few hundred more millionaires will enrich the local community.

"We are very determined that we shouldn't become Monaco," says Andreas Hotz, the Mayor of Baar. "It's essential that there isn't a ghetto for the rich and everybody else is left outside."

Glencore's flotation on the London

## Tomorrow

## Glencore's troubled dealings in Africa

Stock Exchange may change that communal balance. After all, Baar has only 22,000 inhabitants — including more than 5,000 foreigners whose municipal and cantonal taxes have helped to transform it into a flourishing community.

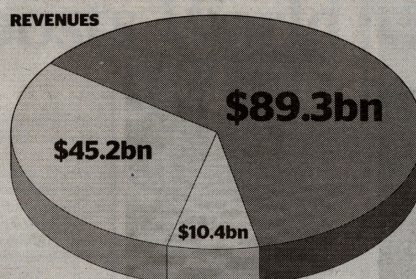
At a time when municipalities across Europe are cutting back, Baar boasts a vast public swimming pool — "only 30 centimetres short of Olympic length", says Mr Hotz — a big public library and some of the best state schools in the region. But that is not why the Glencore spaceship landed here.

"It's the taxes, stupid," a young trader told me at the Pickwick pub in the nearby town of Zug. Big international companies have shifted to the canton because they can not only make money globally but also hang on to it. "Right," admits Mr Hotz, ruefully, "it's not the nightlife, we don't have much of that." The last big event was a yodelling contest.

Until the canton started to lower its taxes in the 1950s it was the poorest corner of Switzerland. Now it has corporate tax rates of 16.2 per cent, compared with 40 per cent in the US and 33.3 per cent in France, and is the richest bit of real estate in a prosperous country. Switzerland has the densest concentration of millionaires — that is, well over 200,000 people with at least \$1 million of investment assets — after Singapore and Hong Kong.

So while the Glencore bonanza will certainly put more paper millionaires on the ground, it is not, says Beat Eder, going to bedazzle the village. "Maybe we will get a few more dentists doing teeth whitening," the sales rep says, "or fat-reducing laser [clinics]. That's what people do when they get richer overnight — get their bodies fixed. Or go to church more."

## REVENUES



- Energy products
  - Coke
  - Coal
  - Oil
- Agricultural products
  - Oilseeds
  - Cotton
  - Grains
  - Sugar
  - Oils
- Metals and minerals
  - Ferroalloys
  - Aluminium
  - Iron ore
  - Copper
  - Cobalt
  - Nickel
  - Lead
  - Zinc

3 Glencore buys oil at WTI prices and moves it to Europe to sell at the higher Brent price

4 Brent-priced West African oil will get no benefit being sold in Europe so is moved to Japan, for example, to look for higher prices

2 Brent has been much higher than WTI this year because of uncertainty and lower production in North Africa and the Middle East, which supply much of Europe's oil

5 Earthquake in Japan shuts down petrol refineries, cutting demand for oil. Shipments are redirected and new buyers found in India

**\$32bn**

approximate value of Glencore's stakes in other companies including  
Xstrata 34.5%  
Rusal 8.8%  
Century Aluminium 44%

**2.5m**

barrels of oil traded per day

**1.4mt**

of copper traded a year

**196mt**

of coal traded a year

**9mt**

of grains traded a year

**300,000t**

of lead traded a year

currency — its shares — with which to take over other businesses.

Glencore has a highly regarded management team that, after the flotation, will have a lot of money tied up in the company. Ivan Glasenberg, the chief executive, will own just under a sixth, and has pledged not to sell a single share. Glencore's staff are also brave, going into countries where others fear to tread, such as investing in Colombian mining 15 years ago when the country was being torn apart by the drug trade. Its influence in such places can be a force for good.

If you think, as many do, that demand for commodities is only going one way, this is a company to which you need exposure.

## ... or a punt in the dark?

The company has a murky past. Its origins lie in Marc Rich & Co, the trading house set up by Marc Rich, the controversial American tycoon who traded with apartheid-era South Africa and faced accusations of tax evasion, racketeering, conspiracy and trading with Iran in contravention of US sanctions before he was pardoned on President Clinton's last day in office.

Glencore arguably still retains the

ruthless culture that Mr Rich engendered, of pushing things right up to the borders of legality.

The company has always been exceptionally secretive and, although listing on the public markets obliges it to be more transparent, it is asking a lot for this particular leopard to change its spots.

This secrecy has prevented City investors from getting a handle on Glencore's prospects.

Glencore's governance is patchy, to say the least. Lord Browne of Madingley, the former BP chief executive, decided not to become its chairman at the eleventh hour amid reports that he felt that it was not a business with which he felt

comfortable. It then opted for Simon Murray, a man who has lived outside Britain for 45 years and whose social attitudes date back farther than that. The other directors are far from independent.

This is a business with dubious morals. It trades grain amid food riots and has been accused of profiteering and environmental offences in numerous poor and war-torn countries.

Most of those signing up to buy shares in Glencore's flotation are major Middle Eastern and Far Eastern investors.

Few of the traditional City institutions will touch the shares with a bargepole.

The question is, should you?