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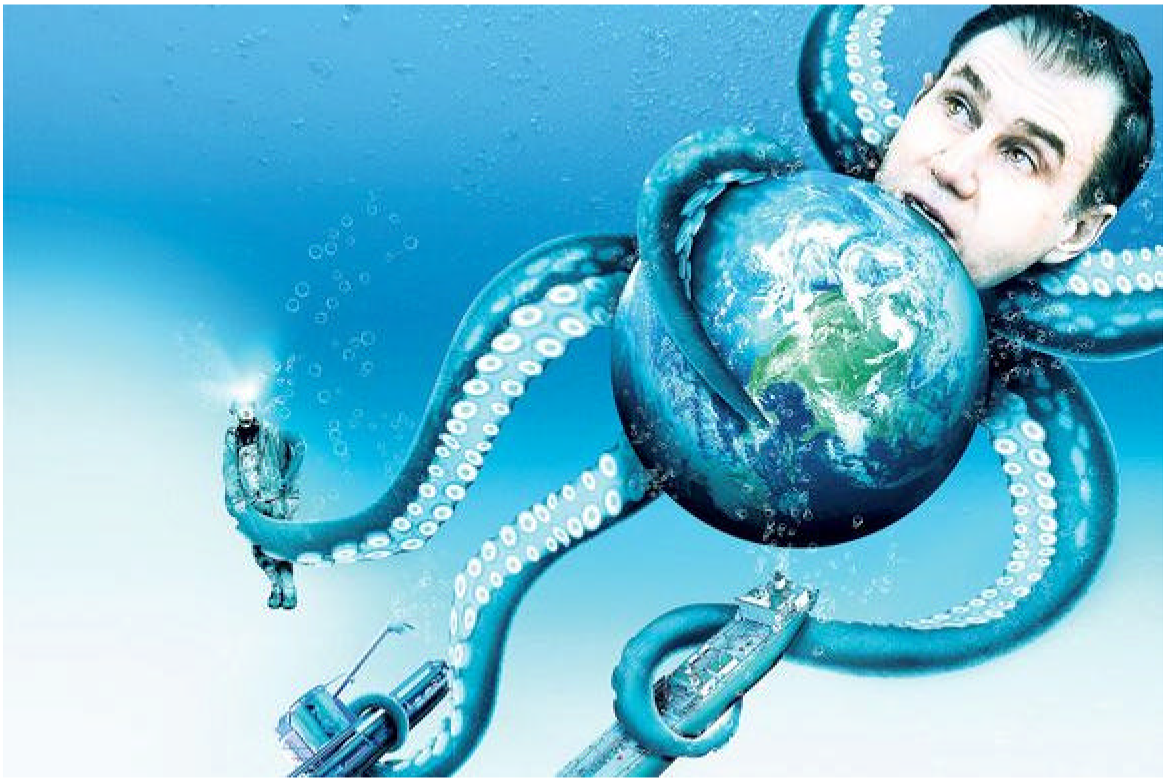
The ultimate vampire squid

The money-making tentacles of commodities giant Glencore has some dark secrets, including betting on grain while the developing world riots over food

Danny Fortson Published: 8 May 2011



Ivan Glasenberg controls the empire that touches everything from iPhones to petrol (STO)

High in the Andes lies one of Bolivia's most prized assets. The Vinto tin smelter churns out 80% of the country's exports of the metal, used in everything from fizzy drink cans to high-end electronics. The price of tin has tripled in the past two years, so when Vinto put several thousand tonnes up for sale a few months ago, it had plenty of interest.

One bidder outdid them all. Sinchi Wayra is one of Bolivia's biggest miners. It paid more than double what Vinto expected, and trounced other suitors, including the Japanese car giant Toyota.

Mining companies wouldn't normally take part in such an auction. Did Sinchi know something its rival bidders didn't? In a word — yes. Sinchi is not simply a miner, but part of Glencore, the world's biggest commodities trader, which last week announced plans to float in London at a blockbusting £37 billion valuation.

The bet on tin was the type of trade only Sinchi's parent would, or could, make. Glencore is one of the biggest miners in the Democratic Republic of Congo, the war-torn country that produces copper, cobalt, gold and tin. Its traders, based in the Swiss town of Baar, spotted early that sales of tin and other metals from Congo had started to slip.

The US Congress last year passed the Dodd-Frank act, a sweeping law that will force firms to declare if they buy Congo's "conflict minerals". It hadn't yet taken effect but buyers had already begun looking to fill their orders elsewhere. As Congolese supplies dried up, the resulting squeeze sent tin in February to an all-time high — three months after Sinchi tabled its knock-out bid.

Such deals are the life-blood of Glencore. The 37-year-old firm produces, trades and ships more raw materials, from wheat and oil to coal and gold, than any other company. It has built an unparalleled global network of assets by going into countries like Congo and Bolivia where others wouldn't set foot, following the resources regardless of who holds them. Its traders draw on that base to weave together an unrivalled picture of supply and demand.

Until recently it worked its magic in cosy Swiss anonymity. The float changes that. It will be the largest wealth creation event since Goldman Sachs went public 12 years ago. Five of its top executives will become billionaires, led by chief executive Ivan Glasenberg, whose 15% stake will be worth \$9.6 billion (£5.9 billion). Hundreds of junior staff will become multimillionaires.

The payday comes with a price: transparency. To convince investors to buy in, Glencore had to bare all. Last week it issued a 1,600-page prospectus that for the first time revealed the full extent of its empire.

It makes for some uncomfortable reading: dealings with corrupt regimes, bets on grain while the developing world riots over food, environmental problems in desperately poor African countries. It was also forced to fight off suggestions its float signalled the top of the market. As if on cue, Brent crude had its largest single day drop in history. It closed at \$115 a barrel — down \$13 on the week — leading a retreat across commodities.

Goldman may be the original "vampire squid" but Glencore's tentacles stretch much further into our lives. Whether it's the iPhone in your pocket, the petrol in your car or the food on your plate, it's a good bet that before it got to you, Glencore had taken its cut.

Last July Glasenberg stood nervously behind Robert Allenby and watched the Australian golf pro stroke a drive down a fairway at Loch Lomond. Glasenberg was part of a four captained by Allenby in the pro-am that precedes the Scottish Open every year.

The other team members were Tom King, a top banker at Barclays Capital, and Luis Pacheco de Melo, chief executive of Portugal Telecom. Glasenberg, an occasional golfer who runs for an hour a day when his schedule permits, would not have been too happy with his and the team's efforts — they came 14th, not quite up to Glencore's normal standards. The golf gave his fellow players an insight into what makes Glasenberg tick. "This guy is probably the most wealthy person on the course, but he never seems to have a new club," said one banker present.

"I had the impression that his wife probably thinks he earns about £200,000 a year and is about to get a big shock when she finds out how much they are really worth," said another player.

Glencore is governed by a relentless, 24-7 mentality. It starts with Glasenberg, 54. The South African has spent his entire career at the company. He started as a coal trader in 1984, a year after graduating from University of Southern California's business school.

Back then the company bore the name of its controversial founder. Marc Rich & Co was a very different company in a very different world.

Rich founded the trading firm a decade earlier and was influential in establishing "spot" markets for oil, once dominated by the giants known as the "Seven Sisters".

He traded with apartheid-era South Africa, and was indicted by the American government for breaking an embargo to trade oil with Iran.

When Glasenberg and Willy Strothotte, until recently chairman, led a $600m buyout from Rich in 1994, he was on the FBI's most wanted list. He still lives in Switzerland, despite a presidential pardon from Bill Clinton.

Today Glencore is unrecognisable from what it was then. Its turnover last year was $145 billion — seven times what it was at the time of the buyout. The deal also marked a strategic shift. Glencore began buying more hard assets — mines in Africa, grain elevators in America's corn belt, a fleet of oil tankers — that took it away from its roots.

There are rival traders, miners and logistics companies, but no entity that puts all three together like Glencore. This is reflected in the way it finds talent. It almost exclusively hires graduates straight out of university, and schools them in the Glencore way.

One rare and successful exception is Alex Beard, the former BP trader who now runs the oil and gas business from its divisional headquarters in Mayfair. Thanks to the float he will be worth £1.7 billion.

The new recruits go to work in a division called "traffic", which organises and executes Glencore's global shipping programme. If they survive traffic, they move up to trading. Glasenberg said that once they make that step, employees rarely leave. "The dropout rate is very, very low."

The other thing that has set it apart is its willingness to go where other companies won't.

When Glencore bought into the Prodeco coal mine in Colombia in 1995, violence between drug lords and the government was rife. For many companies — especially public ones with inquiring investors — it was a no-go area.

"When I first went to Colombia, the big mining companies wouldn't go there," Glasenberg said. "They thought they would be kidnapped."

Once it is public, Glencore will have a bull's-eye on its back. It may have to pass on deals it would have jumped at in the past — like Katanga Mining, a Congo copper miner that Glencore bought into in 2008. At the time, Congo was rated by the World Bank as the most corrupt country. Dan Gertler, the controversial Israeli tycoon who controlled Katanga, and is a close friend of the president, Joseph Kabila, is Glasenberg's main partner there.

Glasenberg said the float will not change how, where or with whom Glencore operates. "Zero will change. We will be chasing return on equity like we always have. We are the major shareholders, and what does the owner want? Return on his investment."

IT IS hard to believe that all of Glencore's 2,700 traders view the world as Glasenberg does. He has said publicly he won't sell a single share while he works at the company. Junior traders, however, are free to sell up once one-year lock-up agreements lapse next year.

"It's a tough place to work," said another source close to the company. "There are some who want to take some money off the table. Enjoy life a bit."

The unwanted celebrity that comes with becoming a public company may have some other unintended consequences.

Glencore operates in some of the most destitute countries in the world. Its success in pulling the strings of the global economy — and the fabulous wealth it generates for its traders — is now there for all to see.

Will cash-strapped governments still be happy to stand by and watch? Possibly not. Indeed, it has happened before. Glencore used to own the Vinto smelter. Bolivia nationalised it in 2007.

It's the type of hazard that Glencore's new shareholders will have to get used to.

'They'll be the most eligible bachelors in the City'

When Glencore floats in a few weeks, it will be the corporate event of the year — and not only for the 485 traders who will become millionaires, writes Danny Fortson.

The listing will be one of the biggest seen in London. It marks a watershed in the cycle that has seen commodity prices soar to record levels — before last week's sudden drop — and will generate a bumper set of fees for the hundreds of advisers who have worked to bring it to fruition.

Over the coming months, other newly-minted millionaires will come out of the woodwork as share lock-up agreements lapse. Alex Beard, the 43-year-old head of oil trading, is the biggest British beneficiary.

His stake is worth £1.7 billion. Chris Mahoney, 52, the head of agricultural trading, is in line for a large, undisclosed windfall, as is Richard Marshall, 56, the general counsel, and Giles Jones, the 43-year-old head of risk.

No fewer than 20 banks are working on the offering but the top three — Credit Suisse, Morgan Stanley and Citigroup — will take the lion's share of the $434m (£265m) in fees.

Many of the others, who lent Glencore money on very favourable terms in the hope of getting a big piece of the pie later on, will make far less.

What is certain is that come May 24 — the first day of trading — champagne corks will be flying. An executive at a rival firm said: "I can't believe how much these guys are worth. They'll be the most eligible bachelors in the City."

The Sunday Times has broken the big Glencore stories, revealing last month the final decision to float and the appointment of its new chairman, Simon Murray, a former foreign legionnaire and Asia-based tycoon. We were also the first newspaper to publish the extraordinary wealth that the offering would generate for Glencore's traders, including chief executive Ivan Glasenberg's mammoth payday through his 15% holding in the company.

And here is an apt Comment sent to The Sunday Times, slighted edited:

"Ruthless, secretive, amoral, devious, single minded, ubiquitous and global; (I am beginning to run out of superlatives). Not to mention very, very, very, rich. Are those qualities appreciated in The City? Do you think the flotation will be a success? Or does day no longer follow night?"