

Glencore

Summary

Glencore plc,ⁱ \$79 billion market capitalization, \$33.8 billion in fixed income securities, 81,300 employees, is a diversified natural resources company.

In January 2022, Swiss multinational Glencore became the sole operator of Latin America's largest open-pit coal mine, Cerrejón, when it completed its purchase of the mine from Anglo American and BHP for an estimated final sale price of \$230 million after adjusting for cash flows accruing to Glencore since the announcement of the sale. But after thermal coal prices surged to a record high over the period – underpinned by a global energy crunch – Glencore said the cash payment on completion of the deal totals just \$101 million.ⁱⁱ

The Cerrejón mine is located in La Guajira, Colombia, along the Caribbean coast near the border with Venezuela.

Cerrejón is an open-pit coal-export mining operation in the region of La Guajira in Colombia, where it operates a mine, railroad and port facilities. The mine has an operating capacity of 33 mtpa (100 percent basis) but has been operating well below that level for the last few years due to lower coal prices and strike action. Reserve life runs to 2034, but production is expected to drop materially from 2030. The sale ends Anglo American's ownership of coal mines while BHP still owns mines in Australia. Glencore has stated it will continue mining the dangerous pollutant for the next 25 years.

Glencore reported that their Cerrejón mine in 2021 produced 23.4 million tons of coal, an 89% increase compared to the previous year.ⁱⁱⁱ

Institutional investors invested in Glencore – such as the Qatar Investment Authority, BlackRock, Vanguard, Harris, Fidelity, and South Africa's state-owned Public Investment Corp., who together own 26 percent of Glencore's shares – are exposed to Glencore's climate risks.

For example, Glencore's H2 2021 Cerrejón coal production equaled almost 0.17 percent of all global annual CO2 emissions in 2020.

When annualized, emissions from the coal produced by Glencore equaled 75 percent of all of Colombia's economy-wide emissions 0.4 percent global emissions.

Glencore also faces operational risks hurt by its mine's mismanagement shown by continuing environmental degradation and deteriorating relations with Indigenous Peoples communities and Afro-Colombian labor unions.

Company Overview

Glencore operates in three groups, metals and minerals, energy products, and agricultural products. Glencore offers its products and services around the world. The company is a major producer and marketer of more than 90 commodities and has more than 150 mining and metallurgical locations, offshore oil production assets, farms, and agricultural facilities.

Climate, Community, and Environmental Risks

Climate Risks

Miners claim that the Cerrejón mine has destroyed over 12,000 hectares of dry tropical forest (with significant GhG emissions), displaced at least five communities, and upset the region's natural river flow.^{iv}

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The mine, which has only extracted 500 million of the 5 billion tons anticipated for its lifetime, is expected to bolster production over the next few years by 25 percent.

Glencore's coal mining operations in Colombia threaten the company's 2026 greenhouse gas emissions 15 percent reduction commitment (Scope 1, 2, and 3).

The coal mine risks Colombia's government commitment to decrease its emissions 51 percent by 2030, under the 2015 Paris Agreement signed by 197 countries.

Community Risks

The Wayuu Indigenous people have inhabited the region since before Europeans arrived in 1499. They have retained a large degree of autonomy while their region remained undeveloped. Although one of the largest and most complex tribal groups in Colombia, the Wayuu have no centralized political power, which has made it difficult for them to effectively confront external pressures. The mining companies chose to negotiate with the villagers on an individual basis to assess compensation for land and houses despite the desire of Wayuu communities to conduct collective negotiations to obtain compensation for resettlement.^v Similar patterns have been observed with Afro-Colombian communities leading to forced resettlement.

In 2020, a number of United Nations (UN) Special Rapporteurs denounced the Cerrejón mine. David Boyd – the UN Special Rapporteur on human rights and the environment – remarked that *'the situation that was brought to my attention recently regarding the El Cerrejón mine and the Wayúu indigenous people is one of the most disturbing situations that I have learned about in my two and half years as Special Rapporteur on human rights and the environment.'*^{vi vii}

Glencore's operations in Colombia pose a reputational risk to asset managers because of material environmental justice risks. Afro-Colombian miners went on strike for three months in late 2020 over a wage dispute, and former workers and local Indigenous Peoples' communities blockaded the rail line in summer 2021. Several NGOs filed a complaint with the OECD in January 2021, demanding the coal mine be closed for "serious human rights abuses and devastating environmental pollution." Cerrejón has had repeated conflicts with nearby Wayuu Indigenous Peoples and its largest union, which held a three-month strike in 2020. The government has concentrated on clearing the blockades by force. At least 58 blockades have obstructed supply in several Colombian regions. Demonstrations have left 43 people dead and more than 1,700 injured., while the National Strike Committee has criticized the excessive presence of the security forces and is asking for their withdrawal from the protests.

In late May 2021, Glencore declared *force majeure* and halted operations because of two blockades which prevented it from bringing in supplies of gasoline. One blockade was mounted by former workers upset by recent job cuts and the other blockade another by an indigenous community which has made repeated environmental complaints about Cerrejón.

Environmental Risks

The Cerrejón mine jeopardizes the health of approximately 13,000 people working in or living near the mine. Glencore's Cerrejón mine's negative impacts on local communities and the environment are financially material as the mine uses 24 million liters of water daily. This water usage has partially led to the depletion of the local water table, which is now at 20 to 30 meters below ground where before it was 5 meters below ground. Consequently, Cerrejón mine now ships 80,000 liters of water daily to local communities.

As a result, Colombia's Constitutional Court ruled that Cerrejón must cease pursuing portions of its water extraction plans. In La Guajira the atmosphere contains particulate matter in excess of the limits recommended by the WHO and imposed on Cerrejón by the Colombian courts. Annually there are over 400 emergency room visits and over 336,000 respiratory symptom cases in La Guajira directly attributable to the mine. Studies have shown that air pollution is driving elevated levels of cellular damage, DNA damage, and chromosomal instability for those living in the region.^{viii}

In 2019, the mine reportedly dumped 578 million liters of liquid waste into local rivers and streams, resulting in dangerous levels of mercury and lead.^{ix}

Risks to Investors and Cost to the Company

Costs to Glencore

- Glencore's climate change-adjusted EBITDA is a short-term material risk to Glencore, the government of Colombia, to the asset managers invested in Glencore and to their beneficiaries and asset owners who they work for as it may misrepresent Glencore's financial stability
- Supported by the current global commodity rally, Glencore's Cerrejón mine added close to \$1.1 billion in EBITDA to Glencore's 2021 record EBITDA of \$21.3 billion. Yet consensus annual EBITDA for the whole company is forecast to decline 31 percent to \$14.8 billion by 2025.
- At the same time, over the same period, coal extraction is forecast to remain stable at 123 million tons while coal specific EBIT is forecast to decline 71 percent from \$5.2 billion to \$520 million, which is the sign of a dying industry. Finally, Cerrejón specific EBITDA is forecast to decline from \$1.2 billion in 2022 to \$510 million in 2025.
- The allure of thermal coal's recent high prices may mean Glencore will miss its stated target of 15 percent emissions reduction by 2026.
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Risks to Investors

- Institutional investors have an exposure problem. Institutional investors invested in Glencore – such as the Qatar Investment Authority, BlackRock, Vanguard, Harris, Fidelity, and South Africa's state-owned Public Investment Corp., who together own 26 percent of Glencore's shares – are exposed to Glencore's climate risks.
- For example, BlackRock has a passive investment problem. Its iShares passive investment exposure to Glencore overall is 115,307,443 shares with an est. return percent (average) of 55 percent. One BlackRock ETF – the iShares Core FTSE 100 UCITS ETF with "Exposure to the 100 largest UK listed companies" – alone owns 68 million shares in Glencore with an est. return of 53 percent (average).^x
- Glencore has \$12.12 billion in bonds coming due between April 2022 and the end of 2025. Accordingly, investors should demand a clear plan for emissions reduction, including specific operational sites, or require a higher coupon rate. In addition, large stockholders like Blackrock and Vanguard, which own a combined 11 percent of Glencore stock worth more than \$8 billion, should do so too or divest from their equity stakes.

References

ⁱ Glencore's ticker is GLEN LN Equity, FIGI BBG001MM1KV4, ISIN JE00B4T3BW64, and the company has 36 corporate bonds and four loans.

ⁱⁱ Biesheuvel, Bloomberg (January 11, 2022). *Glencore's Colombian Coal Deal Ends Up Costing Much Less*.

ⁱⁱⁱ Medina, Bloomberg (February 28, 2022). *Glencore's Colombia Coal Mine Output Rose 89% Y/y in 2021*.

^{iv} Facing Finance (December 9, 2013). <https://www.facing-finance.org/en/database/cases/cerrejon-coal-mine-colombiakohlemine-cerrejon-kolumbien/>

^v ScienceDaily (October 14, 2007). *Human Cost of Colombian Coal Revealed*.

<https://www.sciencedaily.com/releases/2007/10/071012100630.htm>

^{vi} ABColombia, 'Digging Deeper: UN Special Rapporteur David Boyd's video statement – El Cerrejón and the need for TNC Treaty' <https://www.youtube.com/watch?v=ffWTT9Q69g8>

^{vii} Global Legal Action Network (January 20, 2021). *Non-Compliance with the OECD Guidelines for Multinational Enterprises: BHP, Anglo American, and Glencore*. [https://media.business-humanrights.org/media/documents/Complaint before OECD Parent company-NCP Ireland.pdf](https://media.business-humanrights.org/media/documents/Complaint%20before%20OECD%20Parent%20company-NCP%20Ireland.pdf)

^{viii} Global Legal Action Network (January 20, 2021). *Non-Compliance with the OECD Guidelines for Multinational Enterprises: BHP, Anglo American, and Glencore*. [https://media.business-humanrights.org/media/documents/Complaint before OECD Parent company-NCP Ireland.pdf](https://media.business-humanrights.org/media/documents/Complaint%20before%20OECD%20Parent%20company-NCP%20Ireland.pdf)

^{ix} Global Legal Action Network (January 20, 2021). *Non-Compliance with the OECD Guidelines for Multinational Enterprises: BHP, Anglo American, and Glencore.* https://media.business-humanrights.org/media/documents/Complaint_before_OECD_Parent_company-NCP_Ireland.pdf

^x Bloomberg Finance, L.P. Accessed February 2022.