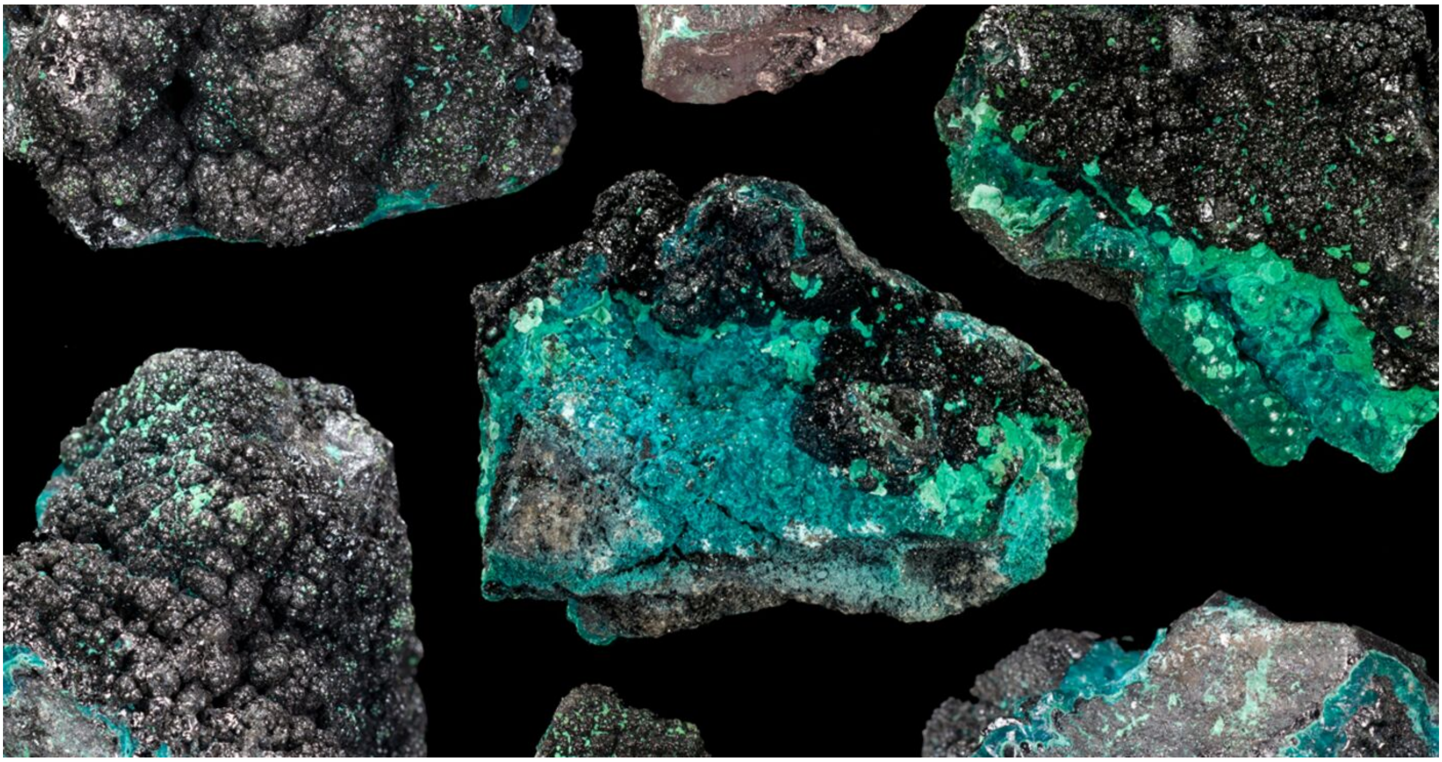

Heterogenite (cobalt oxyhydroxide) from the Democratic Republic of Congo.*Photo Illustration by 731: Photos: Courtesy The Arkenstone*

Businessweek | Feature

Trouble in the Congo: The Misadventures of Glencore

What a time to own the world's most valuable cobalt mine, and to have to fight to keep it.

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A DOZEN YEARS AGO THE FUTURE OF TECHNOLOGY BOUNCED OUT OF A REMOTE CORNER OF AFRICA on the back of a truck, along with a world of potential trouble. Both, embodied in the same load of rock, landed in the hands of Ivan Glasenberg, chief executive officer of Glencore Plc, the world's largest middleman for the raw materials that fuel, feed, and underpin civilization. Glasenberg's obsession was copper, because China's appetite for it was insatiable, with copper wire electrifying the nation's rising cities and running through the appliances its factories sold to the West. The metal's price had quadrupled in less than three years, triggering a global frenzy. Miners blasted it from Chilean mountaintops and dug it from the African earth as fast as they could.

At a processing plant in Zambia, Glencore was buying up all the ore containing copper it could get its hands on when technicians noticed something extraordinary. One trader consistently rolled in with rocks showing levels of purity that were off the charts–not just for copper, but also for the blue metal cobalt. Glencore's men asked the trader to take them to the source, and Glasenberg joined the contingent that trekked to the site some weeks later. The trader led them up a bumpy track of red earth that crossed into the Democratic Republic of Congo and led to a meadow covered with bluish-purple flowers. Locals dug up rocks by hand and shoveled them into threadbare sacks. The place was called Mutanda.

In 2007, Glencore bought a large stake in Mutanda, assumed operational control, and fenced off the property. The subsistence miners who were locked out had unwittingly discovered the richest vein of cobalt on earth. Cobalt is essential for the batteries that power electric vehicles and our ubiquitous mobile devices, and Congo produces two-thirds of the world's supply—it's the Saudi Arabia of the electric vehicle age, in the words of one analyst. With demand skyrocketing, the price of the metal has tripled since mid-2016, and at one point had quadrupled. Mutanda produces more cobalt than any other mine, and the only one likely to overtake it anytime soon is nearby and also owned by Glencore.

Glasenberg couldn't have known just how important cobalt would become when he invested in Mutanda, but he did know Congo would yield something special. And he understood that in a country as physically and politically unnavigable as Congo, Glencore would need good relations with its temperamental government. The solution he struck upon served the company well for many years: He teamed up with a brash Israeli diamond trader named Dan Gertler, who'd been forging bonds with Congolese elites for a decade.

Glencore's Katanga mine in the Democratic Republic of Congo. Its sister mine, Mutanda, is also owned by Glencore. *Photographer: Simon Dawson/Bloomberg*

Just six months ago, Glasenberg sounded confident that the crowning moment of his journey remained ahead, reminding shareholders of predictions that the world would need to triple cobalt production by 2030 to meet demand. “We’re the best placed of all the large-cap companies to take advantage of this electric vehicle phenomenon,” he said at Glencore’s annual meeting in May. But in July that promise clouded. Glencore announced that the U.S. Department of Justice had subpoenaed documents and other records related to its Congolese investments and other deals, and was examining its compliance with U.S. laws on foreign corruption and money laundering. The U.K.’s Serious Fraud Office is also considering whether to open an investigation, people familiar with the agency’s thinking told *Bloomberg Businessweek*. These actions do not necessarily mean that the company committed any wrongdoing or that charges will be filed. Glencore and Glasenberg declined to comment for this article.

At the center of it all: a two-decade swath of corruption allegedly cut across Congo by Gertler. Public and confidential records, some of them contained in the Paradise Papers obtained by the German newspaper *Süddeutsche Zeitung* and shared by the International Consortium of Investigative Journalists, as well as interviews with three dozen sources, including government officials, people who’ve worked on Glencore’s Congolese operations, and mining executives, show the business relationship between Gertler and Glasenberg is deeper than was previously known. It’s becoming apparent that Glasenberg’s ties with Gertler could threaten not only Glencore’s cobalt dreams but also, perhaps, Glasenberg’s career and legacy at the very moment he appears poised to own the future.

A BILLION YEARS AGO, A SERIES OF GEOLOGICAL EVENTS BEGAN THAT WOULD, IMPROBABLY, concentrate the majority of the planet’s cobalt on one tiny slice of Earth. A stew of cobalt and copper began collecting in a basin between the shifting plates of continental crust that formed southern Africa. As those plates collided, they thrust the deposits upward, forming a metal-rich belt 300 miles long and 150 miles across. The process took hundreds of millions of years.

Cobalt almost always occurs in combination with other metals, and along the part of the belt that fell inside modern-day Congo, it mixed with copper. While even high-quality ore from other parts of the world has copper and cobalt concentrations of less than 1 percent, some portions of the Central African Copperbelt have 10 times that. Select spots yield ore with 25 percent minable metal.

This rich earth became the key to power during the three-decade reign of Mobutu Sese Seko, a totalitarian and kleptocrat in a leopard-skin hat. Billions of dollars generated from copper production paid for soldiers and outlandish extravagances, including an almost two-mile-long runway (long enough to accommodate a Concorde) that was carved out of the jungle near

Mobutu's home village. When a section of the nation's biggest mine collapsed in 1990, production halted and Mobutu's cash started running out. Unpaid soldiers mutinied, and Kinshasa, the prim riverside capital, fell into chaos, leaving an opening for rebel leader Laurent-Désiré Kabila to seize power in 1997. His rise came with a pitch to foreign investors. "Come work with us," one of his lieutenants told the *Wall Street Journal* that April. "Those who trust us today will have a jump-start."

Gertler, a wildly ambitious man whose grandfather co-founded Israel's diamond exchange, heeded the call. Weeks after the regime change, Gertler, then just 23, flew to Kinshasa. He bonded with Kabila's son, Joseph, who was his age and was running the Congolese army. Within a few years, Gertler had paid $20 million to secure a monopoly on the country's diamond exports. When a bodyguard assassinated the elder Kabila in 2001, Joseph became president—giving Gertler a direct line to the palace just as global commodity prices were starting a decade-long surge.

Dan Gertler, Glencore's partner and connection in Congo. *Photographer: Simon Dawson/Bloomberg*

As Kabila was cementing power in a 2006 election, Gertler secured the rights to Katanga, a giant copper and cobalt pit 40 miles west of Mutanda. The big mining companies had scant idea at the time that the land held uniquely rich deposits. The local subsistence miners, however, had already started to burrow into the ground. Western companies refer to these miners as "barefoot geologists," because they often lead foreign companies to extravagant riches. Men and boys scavenged chunks of ore out of the earth and sold them to traders. With flashlights strapped to their heads, they dug narrow tunnels into the red earth, scraped the minerals away with hand tools, and lifted 110-pound woven sacks of ore to the surface. In the rainy season the soil softened and the tunnels regularly collapsed, sometimes burying men alive.

The diggers ate, drank, partied, and slept in makeshift villages constructed of wooden poles and orange tarpaulins. Policemen and soldiers with Kalashnikovs would extract bribes before the goods could be brought, via roads sprinkled with turquoise powder from copper-rich ore, to dusty yards in the local town of Kolwezi. Chinese, Lebanese, and Indian traders weighed the miners' rocks and measured the metal grades, then paid out so they could export the materials. It was one of these traders, a man named Alex Hamze, who led Glencore to Mutanda.

Glasenberg's strategy for growth in that period included becoming a producer where possible, and not merely a middleman. Here was a chance to do that on a large scale. Glencore acquired a 40 percent stake in Mutanda in a deal that valued the project at $150 million. About the same time, the company poured hundreds of millions of dollars into Katanga, taking control of it in the process.

Glasenberg had sensed Congo's great promise, and he soon hurried to cash in. The company started bringing in laborers on charter flights from South Africa to build an open-pit mine at Mutanda: Filipinos to weld, Indians to build boilers, and South Africans and Australians to assemble the processing circuits. They lived in lodgings resembling shipping containers, and weathered malaria, acid spills, and muddy drinking water.

Behind the gates, the operation became a sharp contrast to the child labor and hand digging that Congolese mining had become known for among international activists. Equipment was modern and supervised by expats. The meaty South African construction manager, Hein Engelbrecht, drove around barking orders from a quad bike with the flag of his nation's rugby team flapping from an antenna. Managers could sip gin and tonics beneath a thatched terrace overlooking the endless savanna, or play golf on a nine-hole course less than a mile from the massive baths of drying cobalt. Local employees were grown men in hard hats operating heavy machinery, and there were no barefoot children in sight.

On the ground, in one of the messiest corners of one of the world's toughest industries, Glasenberg looked to be playing it squeaky clean.

Ivan Glasenberg at the 2017 Glencore annual shareholder meeting. *Photographer: Arnd Wiegmann/Reuters*

AS A YOUNG MAN IN HIS NATIVE SOUTH AFRICA, GLASENBERG WAS A CHAMPION SPEED WALKER. THE sport is an easy target for jokes, what with the exaggerated hip wiggling, but it requires unique skill, pitting the quest for speed against the requirement that both feet never leave the ground simultaneously. (When you do that, you're running.) The challenge is to go right up to the edge of the rules without breaking them, or without getting caught if you do.

Glasenberg had Olympic aspirations, but apartheid South Africa hadn't been welcome at the games since 1960. He left Johannesburg, where he'd grown up the son of a Lithuanian immigrant who was a luggage importer. After qualifying as an accountant, he earned an MBA from the University of Southern California and then, in 1984, joined Glencore's coal division.

Energy was then Glencore's main focus, the specialty of its founder, Marc Rich, who all but invented global oil trading. The year before Glasenberg arrived, the U.S. had indicted Rich for tax evasion, wire fraud, racketeering, and trading oil with Iran when the country was under embargo. A decade later, Glasenberg was part of a group of executives who bought out Rich's controlling stake. He became Glencore's CEO in 2002.

To describe Glasenberg as a trader is to evoke the wrong image—of someone in front of a computer terminal, buying and selling abstract numbers. Interviews with dozens of subordinates, partners, and rivals paint the CEO as focused on the physical materials he trades and the digging machines, ports, and people that shape their passage to market. He's known in the industry as a hard, relentless man. He can be blunt. “So, what are you going to do with all your f---ing money?” he once asked a man who’d agreed to be bought out by Glencore, according to two people who were in the room at the time.

Although he oversees a global empire with 146,000 employees in 50 countries, Glasenberg was especially interested in Congo. Operating a mine was a new challenge. So was Dan Gertler. Glasenberg personally managed Glencore’s relationship with Gertler, according to six executives involved in the transactions between the two men. The money flowed from Glencore to Gertler’s companies for more than a decade in the form of hundreds of millions of dollars of loans and contracts for various services.

Joseph Kabila, president of the Democratic Republic of Congo. *Photographer: Benoit Doppagne/Belga/Zuma Press*

Glasenberg would pointedly acknowledge that Glencore’s ability to work in Congo depended almost entirely on Gertler. Without him they could lose their mines, Glasenberg said, admitting he had no other real access to Kabila. The company didn’t even have a representative in Kinshasa, depending instead on a Gertler employee to handle relations with the government. Whenever an executive raised concerns about relying too much on Gertler, two insiders say, Glencore’s head of copper trading, Aristotelis Mistakidis, would brush them aside.

In the early years, Gertler’s closest relationship to Kabila’s inner circle was with a presidential adviser named Augustin Katumba Mwanke. In the style of a classic fixer, Katumba oversaw Congo’s mining revival starting in 2006, although he had no official title. About that time, Gertler took

Katumba and his wife, Zozo, on a yacht trip on the Red Sea and treated them to a performance of the spoon-bending illusionist Uri Geller, according to Katumba's self-published autobiography. In the book, he also thanked Gertler for lobbying the White House in support of Kabila and said Gertler had saved his life by hiring 13 doctors to treat him when he slipped into a coma after an operation during the trip to Israel. "From then on, his ideas also became mine," Katumba wrote. "Dan, my friend, my twin brother despite everything that appears to make us different, I am proud to be the brother you never had." Katumba died in a plane crash in 2012.

Congo was an unpredictable place to do business, but government decisions more often than not went Gertler's way. The regime canceled the mining rights of three international companies from 2007 to 2009. Two got those rights back after they joined with Gertler. In the third case the rights were resold to Gertler. One of Gertler's rivals was declared persona non grata and kicked out of the country overnight.

> In 2016 cobalt prices popped. Carmakers beat a path to Glencore's door, suddenly aware they had to get their heads around the new battery technology

Glasenberg put Mistakidis in charge of Glencore's Congolese mines, but Gertler was often hard to handle. He squabbled over details in contracts and was impatient about new investments, and when Mistakidis didn't give him the answers he wanted, he called Glasenberg. Nonetheless, the relationship between Glencore and Gertler deepened. The company rolled over loans to him at the last minute, never requiring him to pay the principal. It gave him stock options at a discounted price. In one instance, Glencore redrew Mutanda's boundaries to include some land that Gertler held, giving him a sizable stake in the operation; five years later, the land hasn't been developed. Glencore even played a role in a complicated arrangement whereby Gertler became the owner of a valuable stream of mining royalty payments Glencore paid to Gecamines, a Congolese state-owned company. Gecamines yielded the royalties to Gertler after defaulting on a loan. Glencore then made a generous upfront royalty payment to Gertler, financial documents, some from the Paradise Papers, show. Had Glencore made the same early payment to Gecamines, it wouldn't have defaulted on the loan to Gertler and the royalties would still be flowing, as intended, to Congolese coffers.

Glencore said in 2016 that Gecamines directed it to make the payments to Gertler, and that it had taken "reasonable measures" to assure that the sale was valid. Two years earlier, Glasenberg told the London-based transparency group Global Witness that Gertler got "absolutely zero preferential treatment" in their dealings. At the same time, Benjamin Mancroft, a member of the U.K. House of Lords who was then a spokesman for Gertler, told Global Witness that it was "wholly misconceived" that Glencore offered his client preferential treatment.

A mining excavator at Katanga. *Photographer: Simon Dawson/Bloomberg*

GLASENBERG OFTEN VISITED MUTANDA AND ITS SISTER MINE, KATANGA, ARRIVING WITH A CONVOY of guards to closely monitor operations. On occasion he slipped into his running shoes and jogged around the perimeter.

By 2011 prices for many of the commodities Glencore sold were reaching all-time highs. But the company needed cash to fund its expansion into owning mines worldwide, rather than being the middleman to their mineral wealth. That May, Glasenberg and the other senior Glencore managers transformed their secretive Swiss partnership into a publicly traded company, selling shares on the London Stock Exchange. Glasenberg's 16 percent stake was worth $9.3 billion. Five of his colleagues also became billionaires, including Mistakidis.

It was a masterstroke of selling at the market's peak: Today the shares are 42 percent below their initial public offering price. Glasenberg holds an 8.6 percent stake worth $4.8 billion. But the listing in London may have had unintended consequences. It required Glencore to give the public details about its business like never before, helping attract attention, including, ultimately, from U.S. prosecutors. At the same time, it created an opening for British prosecutors to claim jurisdiction over what a Swiss company was doing in Africa.

In 2016 cobalt prices popped. Carmakers beat a path to Glencore's door, suddenly aware they had to get their heads around the new battery technology. That August, someone at the heart of the battery supply chain asked Glencore for all the cobalt it could supply. He had cash ready.

Glencore's traders had never seen anything like it. The purple cobalt sludge coming out of Mutanda had become coveted. The company expanded its processing capability to meet the demand.

Trouble appeared suddenly. In October of that year, Och-Ziff, the largest listed hedge fund on Wall Street, reached a settlement with U.S. prosecutors in which it admitted to conspiring to bribe Congolese officials. The settlement said the fund had done so with the help of an unidentified Israeli businessman who'd paid $100 million in bribes to Congolese officials, including Kabila and Katumba. The liaison was Gertler, according to a person with direct knowledge of the case.

Gertler has never been charged with a crime and denies any wrongdoing. "Various allegations concerning corruption have been unfairly and wrongly leveled against Dan Gertler," a spokesman said in an email. "There is not a shred of reliable evidence with which to support them." Gertler rarely talks to the press, but in an interview with Bloomberg in 2012 he defended his record. During a tour of Mutanda and Katanga, he said he had invested billions of dollars in Congo and attracted millions more through partnerships with Glencore and others, creating thousands of jobs and generating a steady stream of taxes. He emphasized that his success had come because of his staying power and his willingness to take risks, and that he had also suffered setbacks in Congo, such as when his diamond monopoly was rescinded eight months after it was awarded. Gertler said his relationship with Kabila, Katumba, and other Congolese officials was always clean.

Congo has shrugged off the allegations about Gertler. "It's not a concern for us," says Barnabe Kikaya bin Karubi, Kabila's diplomatic adviser. "For us, Mr. Gertler was a legitimate businessman here. He invested, he brought investors, and he has been operating in the Congo legitimately and legally."

A few months after the Och-Ziff settlement, Glencore paid Gertler $572 million for his stakes in Mutanda and Katanga and forgave $388 million in debts he owed the company. As part of the agreement, Gertler continued to receive royalties from the mines. Some Glencore investors were disturbed by these events. At the company's 2018 annual meeting a French shareholder asked Glasenberg and other executives onstage what due diligence they'd done on Gertler before going into business with him. Glencore's chairman, Tony Hayward, who'd run BP Plc during its 2010 oil spill disaster in the Gulf of Mexico, barely let him finish the question: "It's extensive and thorough. Next question, please."

"That's it?" the shareholder asked.

"Extensive and thorough," Hayward repeated before moving on.

The second shoe dropped in December 2017, when the U.S. Department of the Treasury said Gertler had amassed a fortune in "opaque and corrupt mining and oil deals." He'd used his "close friendship" with Kabila, Treasury said in a statement, "to act as a middleman for mining asset sales in the DRC, requiring some multinational companies to go through Gertler to do business with the Congolese state." It said that between 2010 and 2012, the people of Congo lost more than $1.36 billion in revenue to Gertler. The U.S. placed a raft of financial sanctions on him, which meant

Glencore couldn't pay Gertler for their ongoing business without risking penalties from the U.S. government. Glencore scrambled to get out of arrangements it had with Gertler's companies. When it failed to make a royalty payment, Gertler and Gecamines separately took Glencore to court in Congo, threatening to freeze and dissolve the company's operations in the country. Bailiffs rushed to the mines to see what they could seize.

Without Gertler, Glasenberg no longer had any ties to power in the country. Humiliating proof of that came this March, when he holed up for 24 hours in a Kinshasa hotel hoping to lobby the president on a new mining law. When he finally got the meeting, together with six other international mining bosses, it didn't go well. The Glencore CEO emerged with a distant stare, letting the head of another company read out a joint statement while he stood behind in silence. Kabila had made no concessions.

Balls of ore sit in a collection drum before loading into a processor at Katanga. *Photographer: Simon Dawson/Bloomberg*

The crisis cascaded. In June, in an attempt to resolve the legal dispute with Gertler and keep its Congolese mines, Glencore agreed to pay $29 million in royalties it owed Gertler for 2018. Glasenberg had to choose between provoking the U.S. administration, which could impose fines at a future date if it found a sanctions violation, or Gertler, who could stop all revenue from Congo overnight. He chose the former, a decision that shocked many familiar with the U.S. sanctions regime, but the company said it had discussed this with U.S. and Swiss authorities. The only concession Glencore made to the U.S. was to make the payment in euros instead of dollars, which the company said it believed made the payment compliant with the sanctions. By any standard it was a novel solution, and sanctions experts remain divided on how the U.S. government will react. Two weeks later, the Justice Department issued its subpoena. Glencore's board immediately set up a three-person committee, including chairman Hayward, to oversee its response. Hayward said the firm "takes ethics and compliance seriously" and would cooperate with the Justice Department. (Peter Grauer, the chairman of Bloomberg LP, which owns *Bloomberg Businessweek*, retired from Glencore's board in March, after five years as a nonexecutive director.)

At the U.K. Serious Fraud Office, investigators have made a request within the agency to open a formal investigation and are waiting for the recently installed director to decide whether to go ahead, according to three people who have knowledge of the matter.

When news of the legal scrutiny broke, Glencore's investor relations team fielded calls from investors and analysts. The firm didn't discuss the issue of potential culpability; rather, it suggested the potential damage, if any, might be manageable. They told investors that past bribery fines in the U.S. had run to only about $1 billion (Glencore's 2017 revenue was about $205 billion) and that the U.K. may not have jurisdiction over the company. Some people within the Serious Fraud Office see it differently–investigators are arguing within the agency that raising capital is an essential part of doing business, and that because Glencore did that in the U.K., it is in business there and subject to the country's laws.

The investigations were "news hand grenades," analysts from Liberum Capital wrote. "Uncertainty over the company's past dealings will persist"

Investors are now sitting up. Glencore's stock has fallen 20 percent this year. Analysts at JPMorgan Chase & Co. and Goldman Sachs cut the stock from their lists of recommended purchases in the second half of 2018, specifically citing the probes. The investigations were "news hand grenades," London-based analysts from Liberum Capital wrote in a note to investors. "Uncertainty over the company's past dealings will persist. There is little they can do to assuage investors of their innocence or that there are not any other future issues forthcoming."

More than a monetary fine, the real crisis for Glencore would come if the U.S. or U.K. insisted that Glasenberg and other senior executives step down, a demand officials often make in such cases if they deem that bosses were personally involved in wrongdoing or should have prevented it. At 61, Glasenberg has told investors privately he's preparing to step down in the next three to five years. If the terms of his departure are determined not by him but by prosecutors, the stain on his legacy could be indelible.

Glencore is likely to be bruised in this scandal, but whatever it costs the company will pale in comparison to what Congo has lost. The investigations have narrowed Gertler's room to operate, but a private jet still flies him regularly to Kinshasa, and the companies he's connected with still make millions from the mines. And the rot in the mining sector isn't about a single individual. It extends beyond cobalt and copper to the country's vast production of gold, diamonds, tin, tantalum, and other minerals, where billions of dollars of revenue have been lost to the people forever. *—With Jack Farchy*

(Adds U.S. and Swiss authorities in paragraph below final photo.)