Haute école de gestion
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Can reputation risk related to Glencore's activities in the DRC be an impediment to making an investment or indeed to sell one's shareholding stake in Glencore? Can this reputation risk undermine Glencore's share price and if so to what extent?

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by

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Executive Summary

The research objective of this report is to show the impact of reputation risk linked to Glencore's activities in the DRC. In order to measure the impact of reputational risk, a focus is made on Glencore's share price.

In the first part of this report, the introduction helps the reader to get important contextual information about Glencore's background and activities in the DRC. An emphasis on reputational risk and its definition is made.

The second part is a qualitative analysis which aims to identify what are the main reputational risks for Glencore. An interview with Mr. Matile, lawyer, confirms that the main risk for Glencore is corruption. Indeed, the US Department of Justice, Serious Fraud Office and Swiss Government have opened investigations for corruption against Glencore. After analyzing the share price following these announcements, there is evidence that the stock price drops sharply on the short-run. Major shareholders are introduced to understand their potential reaction to reputational risk. Banks analysts' opinion and ranking on Glencore are reviewed. The main commodities mined in the DRC are copper and cobalt. An interview with Mr Cauro, metal trader, provides a better understanding on copper and cobalt as well as commodities as a market. He also gives his opinion on Glencore and its reputational risk.

The third part consists of a quantitative analysis that compares the performance of Glencore's stock and the S&P GSCI Index as well as Brent crude oil price. This comparison is made in order to show what factors impact the share price on the long-run, beyond the reputation risk. The correlation test shows evidence that the share price is closely correlated with the price of commodities, especially crude oil.

The conclusion allows all aspects of the analysis to be brought together in an open discussion. The recommendation is currently to buy the stock, regardless the reputation risk for various reasons explained further in this report.

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1. Introduction

1.1 Literature Review

Copper and cobalt are important commodities for Glencore as they are key to a successful transition towards a low carbon economy. With more than 33% of the world production of cobalt, Glencore is the leader in this market. The Swiss company has important infrastructures, notably on the enormous copper mines of Mutanda and Kamoto in the DRC (Glencore 2020).

This country is rich in copper resources, however there is a problem: the DRC is notorious for having some artisanal miners, often children, working in the mines. They do not have proper equipment and work under dangerous conditions. It sometimes happens that fatal accidents occur and international organizations denounce companies that operate in DRC (Audrey Gaughran 2013).

This ethical issue may cause a reputational risk for Glencore. Is it really possible that a company like Glencore is affected by this kind of problem? In December 2019, Glencore was accused in a lawsuit of child labour in DRC. Yet Glencore says the company is doing everything possible to fight against artisanal mining and child labour. It is one of the only companies operating in DRC to have signed the UN Global Compact and added their supplier standard in their code of conduct (Glencore 2020). The reputational risk associated with artisanal mining is therefore well managed.

There is one more factor that can cause far more problems. Some years ago, Glencore cooperated with Dan Gertler to obtain exploitation rights in DRC. These actions led to investigations for corruption from the US Department of Justice, Serious Fraud Office and Swiss Government. Such revelations hurt Glencore's reputation.

With all these investigations, is it a good investment buying Glencore's stock? Bank analysts' rating is 'buy'; they believe the stock is very attractive at the moment (Myles Allsop, Daniel Major, and Shilan Modi 2020).

Additionally, Glencore expects in the future a solid growth on the copper and cobalt markets due to rising living standards in emerging markets and the transition to low carbon economy. The decrease in reserve of copper might also increase its price and boost Glencore's future revenues and share price (Glencore 2020).

1.2 Problematic and Methodology

1.2.1 Problematic

The goal of this report is to understand if the reputation risk related to Glencore's activities in the DRC can be an impediment to making an investment or indeed to sell one's shareholding stake in Glencore. Furthermore, the research of this thesis will help any interested investor to measure to what extent this reputation risk can undermine Glencore's share price. Some evidences will be highlighted.

1.2.2 Methodology

This research is exploratory because there is no prior paper doing the same research. It brings a new problematic on the table, which is to understand the correlation between Glencore's activities in the DRC and the share price.

Primary data has been an essential component of the research. Two interviews have been conducted, one via phone and the other via email. The answers received from professionals of the industry provided exclusive and privileged data. Furthermore, Glencore's annual reports have been a major source of primary data, which is qualitative as well as quantitative.

Secondary data played an important role to get context about Glencore, especially for the first part of the thesis. Online sources such as articles, publications and websites were used. Secondary data is qualitative.

The process was to first regroup as much qualitative primary and secondary data to start working on the introduction part. For the qualitative fundamental analysis, both primary and secondary data were used. Then, for the quantitative fundamental analysis, only quantitative data was used.

The conclusion and recommendations are based on both qualitative and quantitative analysis.

1.3 Presentation and history of Glencore

Glencore is one of the world's largest trader and producer in metals, minerals and energy products. The group has a strong expertise in various commodities such as copper, cobalt, nickel, zinc, lead, ferroalloys, aluminium, iron ore, gold, silver, coal, crude oil, natural gas. With a turnover of US$ 215.111 billion in 2019, Glencore is the second largest company in Switzerland. Glencore counts 160'000 employees worlwide, with 850 located at the headquarter in Baar (canton of Zug). The company is present in 35 countries and has 150 mining and metallurgical sites as well as oil production assets worldwide (Glencore n.d.).

Glencore was founded in 1974 by the famous commodities trader Marc Rich. Marc Rich & Co AG started by doing marketing activities for ferrous and non-ferrous metals, minerals and crude oil. In 1981, Marc Rich & CO launched Glencore Agriculture through the purchase of the Dutch grain trading company Granaria. The company did its first acquisition of smelters and mines in the US and Peru in 1987, having the advantage of vertically integrated production. Marc Rich & Co was renamed Glencore in 1993, after the management buyout from Marc Rich due to a loss of $ 172 million in the zinc market. After having been accused for several environmental incidents, Glencore published for the first time a sustainability report in 2010. In 2011, Glencore was admitted on the London and Hong Kong stock exchange with a share price at 530 pence, making the company worth US$ 59 billion. It was the biggest IPO in the UK and the third company to enter the FTSE 100 index on the first trading day (Katya Wachtel 2011).

Another significant milestone was the merger with Xstrata in 2013. The group became one of the most powerful copper, coal and zinc producer. In fact, the prices of basic metals could even be influenced only by their trading policies (Phillip Inman 2012).

The story behind this merger is interesting, as Mick Davis (CEO of Xstrata) and Ivan Glasenberg (CEO of Glencore) knew each other since they were young students at University of Witwatersrand in South Africa. Before the merger, Glencore held 34% of Xtrata shares and Mr Glasenberg pushed Xstrata to give Mr Davis the role of CEO. The merger was exclusively discussed between the two CEOs, who played the most important role in the process (Simon Round 2012).

By going public, Glencore increased its transparency. In 2013, the group released a Code of Conduct and launched the SafeWork program to avoid injuries and fatalities at the workplace. The firm released their Human Rights policy one year later.

Glencore took full ownership of the Mutanda mine and increased their stake in Katanga in 2017.

Last year, Glencore continued to follow their commitment to improve their transparency by releasing Human Rights and Water reports (Glencore n.d.).

1.4 Who is Marc Rich?

In order to get some context and understand how Glencore started, it is interesting to take a look on the exciting life of its founder, Marc Rich. He was born in 1934 in Belgium but as of Jewish origin, his family emigrated to the US during the World War 2. Marc Rich dropped out from university in New York to start trading commodities at Philip Brothers. Marc Rich & Co AG was then created in 1973 in Baar for tax purpose. The same year, he was able to predict the OPEP embargo in Iran and made massive profits by buying oil low and selling much higher. He imported oil into South Africa in the period of apartheid thus ignoring the rules from the UN. At this stage, his controversial reputation in the commodities trading world was already made. Marc Rich started getting into trouble when he made deals with Iran during the 1979 hostage crisis. He violated the U.S. embargo during a period of international tensions. The U.S. charged him of tax evasion for an amount of US$ 48 million. To avoid a potential 300 years' jail sentence, Mr Rich was hiding in Switzerland to benefit from the tax system. Even if he ended being on the FBI Ten Most Wanted List, the Swiss Government was protecting him, so his extradition was not possible. In 2001, the U.S. president Bill Clinton pardoned Marc Rich on his last day as president. Marc Rich made donations to Clinton's foundation and the ex-wife of Marc Rich was close to the Clinton family. Those elements impacted Clinton's decision. The ex-president admitted one year later that he regretted the pardon. Marc Rich stayed in Switzerland for the rest of his life without any problems. His fortune was estimated at $2.5 billion when he passed away in 2013 (Steven Perlberg 2013).

Marc Rich is often considered as the godfather of commodities or king of oil, as he was the first to go to oil producers in emerging markets and propose for services such as transport, storage, finance, insurance. His vision was to eliminate oil majors such as BP or Exxon. His strategy was to talk with officials in oil producing countries and explain to them they would increase their revenues by selling directly to the customer. Marc Rich was dealing with corrupted countries. He said once: *"The bribes were paid in order to do the business at the same price as other people were willing to do the business"*. In fact, corruption was for him a cost required to do business. At the end, he succeeded in his ultimate goal that was to make money (James Breiding 2013).

1.5 Why going public?

Before the IPO in 2011, Glencore was a highly opaque trading firm. Marc Rich kept Glencore's activities secret in order not to draw attention of authorities and general public. His thinking was quite logical, as he was dealing with corrupted countries it would obviously not benefit him to be transparent. The current CEO, Ivan Glasenberg, is known to be very discrete. He gave only a few interviews; it is hard to find information about him. The question is why would one of the most secret company go public?

An important concept to understand is that Glencore is not a pure trader anymore. Indeed, they still do marketing activities, but the main part of their business has evolved. Commodity trading is a tiny margin and large volume business. Over the years, the competition has become strong and Glencore took a competitive advantage on other traders by doing vertical integration such as mining, smelting or processing. Therefore, Glencore's competitors are major mining companies such as BHP, Vale or Rio (Burns 2011). It is true that pure trading companies dealing with similar commodities as Glencore are also competitors but only on the marketing side. Glencore is too big to be compared directly to smaller traders. Glencore could be called a hybrid company, as they are a leading trader, they also want to become one of the world's biggest mining companies. To become a major player in mining, billions of dollars in investment are required. By going public, Glencore could raise an important capital much needed to expand. The company was valued on market at US$ 59.3 billion, becoming the fifth-largest mining firm on the London exchange. A source close to the deal mentioned that Glencore had orders for more than US$ 40 billion (four time more than the US$ 11 billion needed to cover the offering) (Clara Ferreira-Marques and Kylie MacLellan 2011).

The Swiss based company chose exchanges in London and Hong Kong; the reason was probably to access more capital, as more investors are looking at the FTSE 100 than indexes on the Swiss SMI. Another reason is that major mining companies are present in the FTSE 100. It would make sense to compete with them on the same exchange. The listing in Hong Kong is to attract investors of Asia.

A relevant argument on Glencore IPO is the fact that Glencore and Xtrata wanted to merge for a long time but shareholders opposed to the decision because they were not able to value the company at that time. The IPO would offer the shareholders the transparency needed for a correct valuation. A top 10 institutional investor in Xtratra (already listed on the London Stock Exchange) said in 2010: *"It's very difficult to value Glencore because you just don't know enough about it. That's why most investors would* *prefer an IPO which will give you more visibility".* Therefore, the IPO could have been a mandatory step for Glencore in order to merge with Xtrata (Eric Onstad, Laura MacInnis, and Quentin Webb 2011).

By going public, Glencore's reputation improved. It was the opportunity for the group to become more transparent and get rid of the bad reputation they had. After the IPO and the merger with Xtrata, Glencore has been seen more and more as a mining company than a trader. The firm released sustainability reports, human rights policies like any major corporation. The era of secrecy is gone which is good news for investors.

At the end, Glencore had many reasons to go public. In order to grow, they had to merge with Xtrata but the stock market entry was required as it is for any major mining company. Additionally, the firm benefited from an improved reputation and trust from investors.

1.6 Democratic Republic of Congo; Glencore's operations in Katanga

1.6.1 Katanga Region

Katanga is a province in the south of DRC surrounded by borders of Zambia, Angola and Tanzania. The area is twelve times larger than Switzerland and the population was 6 million in 2015 (Katanga factsheet n.d.) (Chantal Peyer and François Mercier 2012). This region is rich in resource of copper and cobalt. Indeed, the Copperbelt full of copper deposits is 260 kilometers long in Katanga (450 kilometers in total with Zambia) (Britannica n.d.). Therefore, Glencore's mines are in Katanga. The production of copper in DRC in 2018 was 1.2 million MT, only 5.7% of world's production (Olivia Da Silva 2019). However, the country produced 104'000 MT of cobalt, 60% of the world's production in 2018 (Priscila Barrera 2020).

The mining sector in DRC generated US$ 1.68 billion in 2017, representing 55% of the government revenues and 17% of the GDP. The same year, 25% of total employment was in the mining sector (EITI n.d.).

Figure 1 - Map of DRC and Katanga Province

Source: Katanga Mining Website n.d.

1.6.2 Glencore's subsidiaries in DRC

Originally, Glencore is a trader based in Switzerland with precious contacts in DRC. In order to control the biggest mines, Glencore had to make local acquisitions. One of them is Katanga Mining Limited. Glencore owned 86% of the shares until they decided in December 2019 to purchase the remaining common shares for a 99.5% ownership. Katanga Mining is listed on the Toronto stock exchange since 1997. In April 2020, Glencore announced that Katanga Mining would be removed from the stock exchange and go private due to COVID-19. The firm said the cost of listing was too high compared to trading liquidity. Other reasons included price risk and operational risks (Helen Reid and Zandi Shabalala 2020). Price risk occurs because spot prices of commodities lead to volatility. Also, Glencore's costs at the mines are fixed but their sales are floating prices meaning there is a mismatch leading to price risk.

In order to operate directly in the Kamoto mine, Katanga Mining Limited owns 75% of Kamoto Copper Company. Thus, Glencore has exploitation rights on the Kamoto mine, one of the largest mines on the copper belt. The DRC government owns 25% of Kamoto Copper Company through the state owned "Gécamines (la Générale des Carrières et

des Mines)". Therefore, the government can keep a certain control on Kamoto. KCC also has the rights for other mines such as Mashamba Est, Tilwezembe and Kananga (Glencore 2020).
The total area is 40m2 and represents 16 million tonnes of copper reserve (Chantal Peyer and François Mercier 2012).
The last major mine owned at 100% by Glencore in DRC is Mutanda Mining Sarl.
The mine produced 200'000 tonnes of copper and 24'000 tonnes of cobalt in 2016 (Glencore 2017).
In 2019, Glencore produced 369'900 tonnes of copper and 42'200 tonnes of cobalt in Katanga. It represents respectively 27% and 91% of their total annual production (Glencore 2020).
The reserve is estimated at 45 million tonnes of copper (Chantal Peyer and François Mercier 2012). However, the mine was shut down and put into maintenance in 2019 due to an oversupply on the cobalt market.

Figure 2 - Mutanda Mine

Source: Saad Idrissi, TTC Groupe 2019

1.7 Dan Gertler and Paradise Papers

A focus is made on Dan Gertler because he is the person who made Glencore's development in the DRC possible. On one hand, he helped the group to make huge profits in the DRC but on the other hand, he deteriorated Glencore's reputation. He comes from a rich Israeli family involved in commerce of diamonds. In 1997, Mr Gertler went to DRC to find opportunities in diamond mining (Wikipedia 2020a).

Dan Gertler became a close friend of Joseph Kabila, the son of the DRC president at that moment. He would easily get exclusive rights of purchase of diamonds. As Joseph Kabila became president in 2001, Gertler had many benefits in exploitation of the mines. He got interested in copper and cobalt and owned 14% of Nikanor Mining, which would later become Katanga Mining. In 2007, Glencore and Gertler reinforced their relationship by investing £ 300 million in Nikanor as an offtake agreement. This is a typical pre-export financing agreement with prepayment from Glencore directly to the producer. Indeed, Nikanor needed working capital to continue its activities. With this investment, Glencore obtained the right to sell 100% of Nikanor's production. A few months later, Glencore also provided a loan of US$ 150 million to Katanga Mining that could be converted into Katanga shares. One year later, DRC was not stable due to civil wars and corrupted political system. Mining sectors suffered from the financial crisis and the Nikanor stock listed in Toronto lost 97% of its value. Nikanor was desperate to find a solution in such difficult times, but investors were scared to invest in this unstable environment representing a high country risk. Glencore already had a certain knowledge of the potential DRC represented thanks to their quantity of natural resources. They saw an opportunity to buy a company cheaply and took the risk to propose a loan of US$ 500 million to Nikanor, upon one condition: Nikanor would have to issue 1 billion new shares and Glencore would become the main shareholder with 74% of ownership. Straight after the issuance of new shares, Nikanor merged with Katanga and became the only one company named Katanga Mining. To reinforce its ownership, Glencore proposed an additional loan of US$ 100 million with possibility for Katanga to swap debt for shares. An analyst called Michael Rawlinson, former investment banker for JP Morgan who has worked on deals for Nikanor, said: *"If you're someone like Rio (Tinto) or Anglo (American), often in these early-stage places you have no reason to be there, you haven't got any assets there, but if you're Glencore, you source concentrate and product from these places, you have trading relationships. They're on the ground first, so they see these opportunities first."* (Eric Onstad, Laura MacInnis, and Quentin Webb 2011). Interestingly, Glencore has a competitive advantage on other mining companies as they have more knowledge thanks to their relationships built over time in emerging markets. The company was able to see an opportunity to become a producer where most of companies would only see bad risk.

Paradise Papers revealed that Glencore paid a loan of US$ 45 million to Mr Gertler in order to get a huge reduction on exploitation rights of Katanga. It is said that the cost of US$ 585 million was reduced to only US$ 140 million. Mr Gertler negotiated with the DRC government as he was a close friend of the president. The DRC state lost an important amount of money in this deal. Ivan Glasenberg admitted that Glencore's success in DRC depended almost only on Gertler, as Glencore's CEO had no direct connection with the president. The documents revealed that as Gertler had sold weapons to Kabila in 2001, the president eventually owed something to Gertler. In 2016, the American hedge fund Off-Ziff Capital Management Group pleaded guilty for participating in a bribery of officials in DRC. The hedge fund had to pay a fine of US$ 412 million. The investigation revealed that they entered in a partnership with Gertler and more than US$ 100 million had been secretly paid to officials in DRC (Nate Raymond 2016). That is the real reason why the president would offer such a big reduction on exploitation rights to Glencore. As the country lost more than US$ 1.36 billion due to bribery, Congolese officials got richer. All these transactions were highly secret and would have been very hard to discover without Paradise Papers revelations. Gertler's companies are mostly registered in the British Virgin Islands, where he is the secret owner. Regulations in such fiscal paradise allow owners to stay secret (Globalwitness 2014). Foexwhelp Ltd and Caprikat Ltd were offshore companies owned by Gertler based in Virgin Islands, which in turn were owned by an investment fund based in Cayman Islands. This fund was controlled by two foundations based in Liechtenstein which were owned by two trusts in Gibraltar (Joan Tilouine 2016). This complex scheme makes it almost impossible to retrace a transaction. Glencore would pay Gertler through those offshore companies (Publiceye n.d.).

Such revelations hurt Glencore's reputation; the Swiss group did probably not expect that it would be public one day. Some consequences are already here. As Katanga Mining is listed on Toronto Stock Exchange, a Canadian Commission opened an investigation to know if investors were properly informed about potential corruption issues linked to DRC operations. It could also be an eventual explanation on why Glencore wants to remove Katanga Mining from the stock exchange (Publiceye n.d.).

In July 2018, US Department of Justice informed Glencore they were investigating and requested documents about money laundering and corruption in the DRC (Reed and

Merced 2018). When investors called Glencore to understand what happened, the firm explained they were not guilty and that in the past, fines for bribery in the U.S. would typically be around US$ 1 billion which should be manageable. Even if a monetary sanction could be manageable, another issue could be if the top management has to resign from Glencore. It happened in 2018 with Telis Mistakidis, Glencore's head of marketing for copper. He oversaw operations in DRC and was asked to retire after the scandal of US investigation. Glasenberg has also announced that he is going to retire very soon. Glencore would obviously lose a lot of value and knowledge if the top management leaves the company (Franz Wild, Vernon Silver, and William Clow 2018).

In December 2019, Glencore has been notified that the Serious Fraud Office from UK has opened an investigation for bribery due to suspicious activities in DRC (Glencore 2019). The amount of a fine can be billions. In January 2020, the Serious Fraud Office sanctioned Airbus a fine of £ 3 billion for bribery (Pegg and Evans 2020).

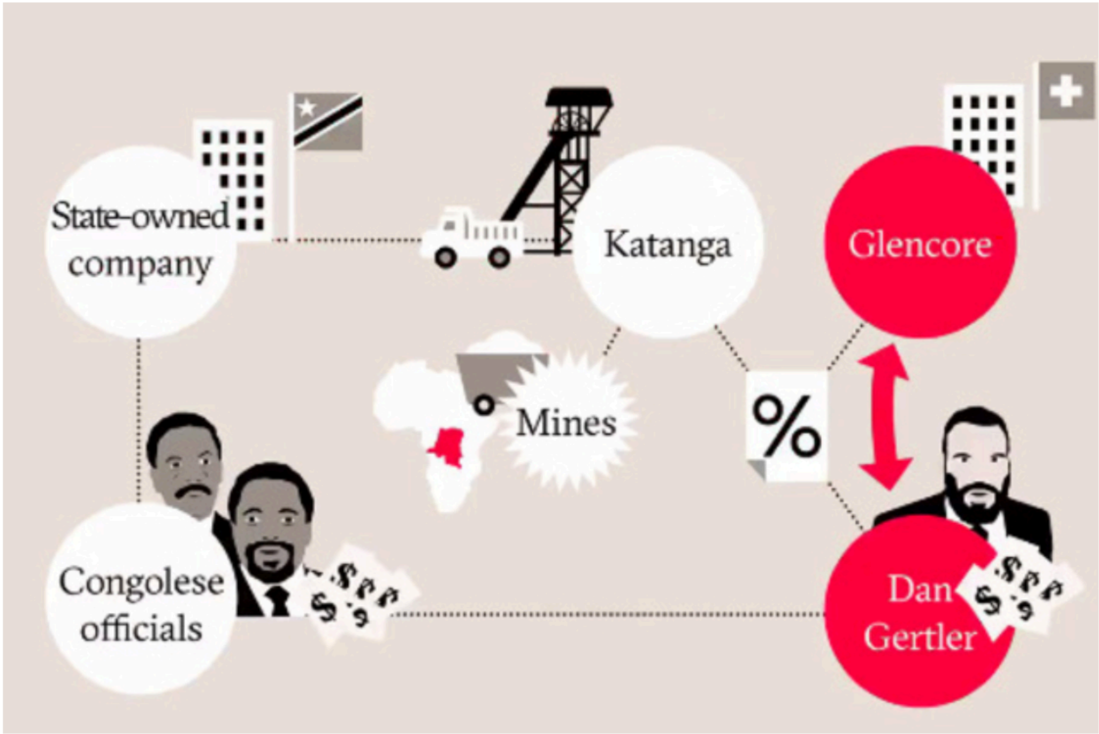
In June 2020, the Swiss government opened a criminal investigation against Glencore due to possible criminal liability in bribery of officials in DRC (Jones and Hume 2020).

These investigations are not completed yet, so the consequences for Glencore could be bad. Having the US, UK and Swiss authorities investigating is a real problem because if Glencore must plead guilty, a fine could be billions of dollars thus affecting the share price.

Furthermore, some politicians in Kinshasa were offended by this scandal. To compensate the loss, Joseph Kabila passed new laws to triple royalties on cobalt to 10% and added a 50% tax on super profits. This could be a reason why Glencore shut down its Mutanda mine. Mutanda paid US$ 626 million in taxes in 2018 representing 10% of government's budget. It could be the way Glencore puts pressure on DRC to reduce royalties so they can reopen it (Neil Chenoweth 2019).

Since Gertler was accused of bribery in 2017, Glencore stopped to pay him royalties to not get caught by US authorities. Apparently, Glencore's relationship with DRC government has since then deteriorated. Ivan Glasenberg admitted once that Glencore's success in DRC depended almost only on Gertler, as Glencore's CEO had no direct connection with the president (Franz Wild, Vernon Silver, and William Clow 2018). It is surprising to see how such important operations in a country can depend on one person.

Figure 3: Visual Representation of Gertler's Deals with Congolese Officials



Source: Publiceye 2017

1.8 Artisanal Mining in DRC

Artisanal mining of cobalt represents up to 25% of the country's total production. According to DRC, 200'000 people work in artisanal mines of copper and cobalt in the Katanga Province. The state created a monopoly by buying all the cobalt produced by authorized artisanal miners through its company Gecamines. In 2019, a decree has been signed in order to avoid children on mines. Artisanal mines will have to comply with this rule to obtain a certificate to operate. A regulator will check if the mines are conforming (William Clowes and Michael J. Kavanagh 2020).

DRC has been known for its opaque supply chain for cobalt and copper. The traders exploit children or very poor people that must work in hard conditions. An important problem of artisanal mines is safety, as it is frequent that mines collapse and diggers underground get killed. In addition, diggers exploit old or illegal mines, which is even more dangerous as there is no control of safety there.

Even if Gecamines try to keep an eye on workers' conditions, there are private traders in Kolwezi that would buy copper and cobalt from anyone and sell it illegally. These traders would of course not verify how the minerals have been mined. Chinese companies have been accused of buying cobalt from illegal artisanal mining sites (Audrey Gaughran 2013).

Glencore is doing everything possible to avoid children in their mines or human rights violation in its supply chain. As Glencore is exploiting huge industrial mining sites, the Swiss company is less exposed to human rights violation. Usually, the mines are under surveillance, only authorized employees can enter and work there. Workers benefit from good working conditions, with high quality industrial equipment which makes mining safer. In December 2019, Glencore was accused in a lawsuit of child labour in DRC. Glencore response was clear:

"We do not tolerate any form of child, forced, or compulsory labour in our supply chain. We support and respect human rights in a manner consistent with the Universal Declaration of Human Rights. Glencore does not purchase, process or trade any artisanally mined cobalt or copper.

We recognise that artisanal mining is prevalent in the DRC and presents risks, particularly for children. As part of our broader strategy as a responsible corporate citizen in the country, we are engaging with the government and other stakeholders to find a *sustainable solution. In this regard, Kamoto Copper Company, our operation in the DRC, is implementing a number of measures, including:*

- *engaging with local communities to highlight the risks associated with illegal artisanal mining, particularly in respect of an active industrial site;*
- *strengthening physical barriers to prevent intrusions and address the risk of injury from entering an industrial site;*
- *working with our security providers to ensure they continue to uphold respect for human rights in a manner consistent with the Voluntary Principles on Security and Human Rights.*

In addition, KCC operates a number of programmes to offer alternative livelihoods and help children stay out of artisanal mining. These include:

- *Supporting agricultural co-operatives to help diversify the local economy and support local employment opportunities, including training and business development. During 2018, we supported over 140 agricultural cooperatives with over 4,000 members*
- *Educational summer camps in collaboration with local NGOs and churches to help children and their parents understand the risks associated with artisanal mining. During 2018 over 9,000 children participated in a wide range of recreational and educational activities; this included discussions on children's rights and the risks associated with artisanal mining;*
- *Ongoing support for construction, maintenance and rehabilitation of schools in the broader Kolwezi area.*

The lawsuit references a number of concessions as locations of injury or fatalities, some of which are erroneously claimed to be controlled and operated by KCC.

The following concessions are not owned or controlled by KCC:

- *Lac Malo*
- *Kamilombe*

Mashamba East pit and waste dump are located on the KCC Concession. KCC has engaged with the local community to highlight the risks of illegal mining, and also with the artisanal agency SAEMAPE to discourage illegal mining activity on its concession. We do not purchase, process or trade ore that is produced at or around Mashamba East.

The Tilwezembe concession, which is owned by Glencore and located ca. 35 km away from KCC, has been overrun by artisanal miners since 2011. Since 2011, Glencore has had no access to the concession and does not have any operational or commercial involvement with it. Glencore has repeatedly requested the DRC government to take action to resolve the situation, and flagged its concerns about labour conditions at the operation." (Glencore 2019).

Even if Glencore is doing everything they can to avoid artisanal mining, the problem is that they own some old concessions, where artisanal miners can go without authorization. As Glencore mentioned, the DRC government has been warned many times but ignored the problem. Investors should be aware that artisanal mining is inevitable in DRC. Glencore do their best but there will always be a risk that illegal diggers go to old sites to find ores. This risk is part of DRC country risk and is very hard to control. The world needs cobalt and copper; if Glencore does not exploit the mines, another company will, despite the risk of being blamed for artisanal mining and child labour. At least the Swiss company does everything possible to improve the situation, which is a competitive advantage.

1.9 The Reputational Risk

Glencore's major risk is reputation. The company is exposed to various risks threating the good name of the business. By definition, according to Mr. Kenton from Investopedia: *"Reputational risk is a threat or danger to the good name or standing of a business or entity. Reputational risk can occur in the following ways:*

Directly, as the result of the actions of the company itself

Indirectly, due to the actions of an employee or employees

Tangentially, through other peripheral parties, such as joint venture partners or suppliers" (Kenton 2019).

As mentioned above, reputation involves all the stakeholders of a business. For Glencore, the most important factors leading to a reputational risk leading are the following: corruption, health, safety, environment, climate change, community relations and human rights.

On Glencore's risk matrix for 2019 (below), corruption is not indicated. It is however the most important reputational risk as penalties could be billions of dollars. Top management could be replaced. The probability is likely, as three investigations are ongoing. The impact could be more severe than other risks.

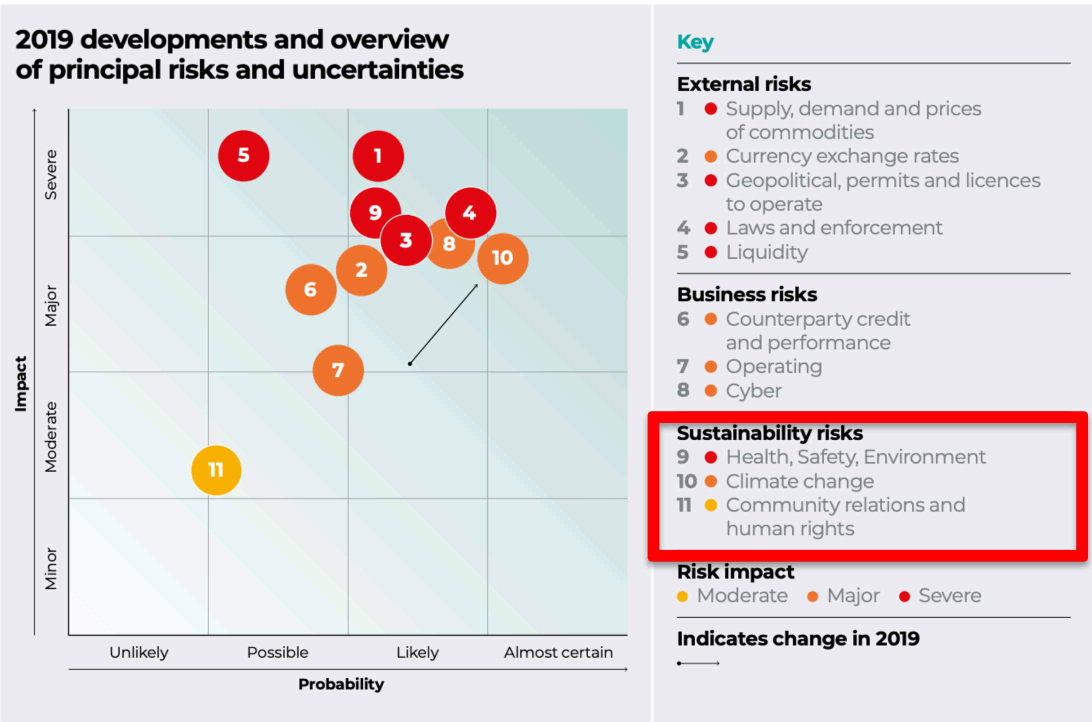
Health, safety and environment issues could cost the company a lot of money. Incidents could cause damages to expensive equipment or death resulting in losses due to interruptions in production, sanctions and permits withdrawn from governments.

Climate change could lead to lawsuits, claims from investors or NGOs seeking damages. Furthermore, it is very important for the image of the company to contribute positively to climate change. A negative impact would deteriorate the name of the brand. This risk is considered as “almost certain” with a major impact.

Community relations and human rights are also a major risk as they would directly damage the reputation of Glencore. Additionally, they could restrict the access to new resources as well as creating disputes with governments. Glencore is however managing this risk well at the moment (Glencore 2020).

The problem of the reputational risk is that a scandal or penalty can happen at any time and without warning. This can be hard for a company to manage it as the reserves are not always enough to cover the costs (Kenton 2019).

Figure 4: Glencore’s Risk Matrix



Source: Glencore 2020

An example is the Volkswagen emissions scandal that happened in 2015. The US Environmental Protection Agency announced that they found a software in TDI cars allowing them to cheat on the pollution output during emissions testing. VW hoped to save money and advertise their fake clean diesel motors to sell more cars. Some of their cars were considered as “Green Car of the Year” due to the software system.

When the scandal came out, VW’s stock fell by more than 30%. VW Group’s CEO had to resign, same for the heads of Audi and Porsche. Around 11 million cars had this software issue. In 2020, the cost of this scandal is estimated at $33.3 billion in various costs (fines, penalties, change of software and buyback) (Wikipedia 2020b). The negative externalities caused by additional pollution are not included in this cost. This is by far the biggest reputational scandal that happened recently. This example illustrates how much damage reputation can cause to a company. Investors fear a reputation scandal from any company but it is impossible to predict.

As Benjamin Franklin said: *“It takes many good deeds to build a reputation, and only one bad one to lose it.”* (Relations 2016).

There is also the concept of perception that matters. For investors, reputation of Glencore could depend on its stock performance. For customers like Tesla, it could be to have transparent supply chain without illegal mining. Therefore, having a good reputation is something difficult to achieve for a business. Reputation is also based on people’s beliefs and it is difficult for a company to control them (Honey 2009).

The general opinion about trading firms’ reputation is not very positive. People often see traders as opaque organizations that speculate and influence markets. However, it is not based on reality, even if Glencore is doing its best to improve these beliefs, it is hard to change them.

That is also one reason why the VW emission scandal was so destructive. The company had a top-notch reputation and no one would have expected such event. The difference with Glencore is that due to past events, its reputation is not as good as VW. It would obviously not be the same shock to learn that Glencore is accused of corruption because people expect it somehow due to ongoing investigations. The damage is therefore already partially made.

As seen on the table below, fraud or criminal activity can lead to complete loss of trust from stakeholders with a very difficult recovery. If Glencore is accused of corruption one day, the main risk would be that they might lose trust from stakeholders on the long-run.

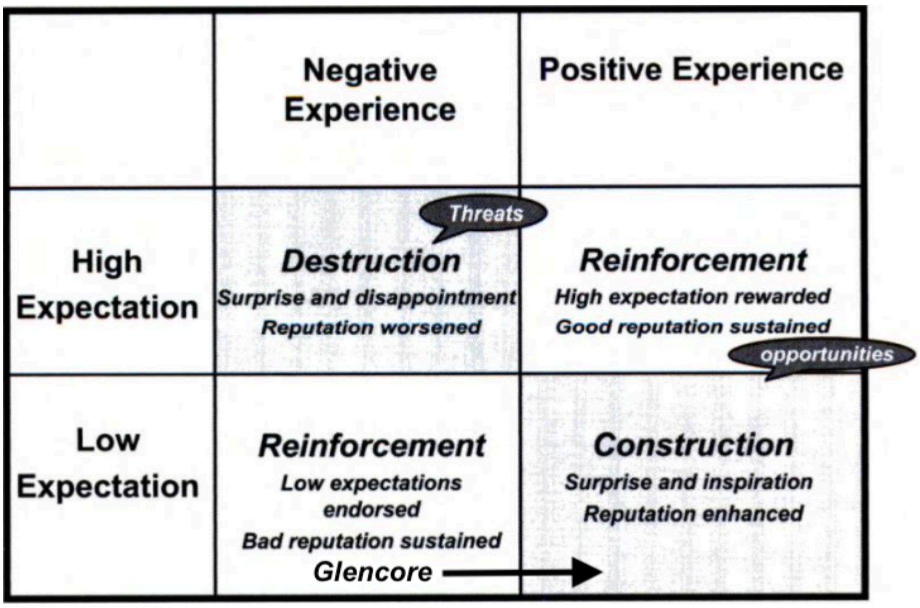
Figure 5: Scale of reputational damage

Level	Stakeholder reaction	Trust damage	Characteristics
5	Outrage	**Trust completely lost** – not recoverable	Fraud, embezzlement, illegal or criminal activity
4	Disgust	**Trust severely damaged** – never fully recoverable	Incompetence, poor management decision making
3	Concern	**Trust diminished** – recoverable at considerable cost	Accident or safety issue e.g. product recall
2	Surprise	**Trust dented** – recoverable with time and good PR	Poor judgement or lack of control e.g. supply chain problems
1	Disappointment	**Trust questioned** – but recoverable speedily	Inconsistent behaviour e.g. gap between policy and reality

Source: Garry Honey 2009

Due to recent investigations and past events, Glencore's reputation has room for improvement. There is an opportunity for Glencore to enhance their reputation and rebuild it.

Figure 6: Expectation and risk



Source: Garry Honey 2009

2. Qualitative Fundamental Analysis

2.1 Interview with Mr Laurent Matile

In order to understand why corruption risk is more serious than other sustainability risks, an interview with Mr Laurent Matile has been conducted. The goal was to clarify some legal aspects in case Glencore would have to go to Court. Mr Laurent Matile is a lawyer and senior policy advisor for business and human rights at Alliance Sud. He has also been a lecturer in law at HEG Geneva since 2010.

The first part was to know what would be the risk for Glencore if a CSR scandal happened in the DRC and a Congolese family or person decide to sue Glencore in court. Mr Matile said that anyone whose rights have been harmed can sue in DRC the Congolese subsidiary which is owned by Glencore headquarters in Switzerland. However, it is very difficult for any private person in a developing country to go to Court. There is a question of costs, there is a question of mastering the legal language, the procedures and so on and so forth. It is part of the difficulties for anyone in a developing countries' environment with all the problems with regard to the independence of the judicial system. Obviously, there is an element of fear and a potential lack of trust in the independence and the impartiality of the judicial system in a country such as the Democratic Republic of Congo. That is part of all the difficulties; material, linguistic, procedural, or governance related issues which any family, by definition poor families, which lives in the neighborhood of these assets, encounter whenever they decide to possibly defend their rights before the justice in their home country. He mentioned that there are local NGOs which often offer their services for free to families or people whose human rights are violated. That' s usually the only possibility from a financial point of view.

Now about the risk for Glencore. Mr Matile explained that human rights violation is usually dealt with on the basis of civil liability which might qualify as a penalty (usually the financial compensation for the actual damage caused to the family). Such damage is not a huge financial risk for Glencore, but it can cause reputational damage. Individually, these damages might not be very high, unless there is a large scale pollution like the BP oil spill. About damage to health, usually the compensation is limited to the necessary medical care given to the person or if the person cannot work anymore, the loss of earnings should be compensated. According to civil law, these are limited amounts.

However, corruption is criminal law. Not only individual people could be held liable from a criminal point of view, but also the company according to the Swiss criminal code. The company Glencore itself could be held liable and the penalties in this case are much higher. This is article 102 of the Criminal Code. The judge has a wide margin of maneuver to define what the damage can be or is. There is a clause which talks about "la capacité économique de l'entreprise; le juge fixe l'amende en particulier d'après la gravité de l'infraction, du manque d'organisation, et du dommage causé, et de la capacité économique de l'entreprise". So there's a tremendous margin of assessment by the judge. In that case, the risk for the company is linked to the potential penalty.

The next part was part was to ask Mr Matile why reputation is so important for Glencore. He said that since they have adopted a policy statement and related code of conduct, they must respect it. From a reputational point of view, they are arguing that they are respecting human rights and, beyond respecting human rights, that they also contribute to the well-being of the local communities which are impacted by their activities. If a company commits to respecting the UN Guiding principles on Business and Human rights, the company has to deal with their potential human rights violations within its core activities and supply chains. If there is any harm caused or any potential harm caused to the communities which might be impacted by the activities, the company has to address and mitigate this risk.

2.2 Glencore Supplier Standards and Principles of UN Global Compact

The supplier standards are part of Glencore’s Code of Conduct. In order to do business with Glencore, each supplier should fill a questionnaire relating ethical business practices, safety and health, human rights and environment. After the self-assessment, Glencore will review the questionnaire and agree or not to collaborate. The company will eventually help the suppliers if they are not fully compliant (Glencore, n.d.). The standards are very detailed and cover every possible CSR issue. Since June 2014, Glencore is also a participant of the United Nations Global Compact Guiding Principles on Business and Human Rights (Glencore n.d.). The company has the obligation to comply with the following principles:

Human Rights

"Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses." (UN Global Compact n.d.).

Labour

"Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation." (UN Global Compact n.d.).

Environment

"Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies." (UN Global Compact n.d.).

Anti-Corruption

"Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery." (UN Global Compact n.d.).

In addition, Glencore is committed to the UN's Universal Declaration of Human Rights, International Labour Organization fundamental conventions, Plenary Group of the Voluntary Principles on Security and Human Rights (Glencore n.d.). Glencore has a competitive advantage on other mining companies in DRC, as they are one of very few companies respecting these demanding principles. The Swiss firm's efforts have already been rewarded as in June 2020 Tesla announced it would buy all its cobalt from Glencore. This deal could represent 6'000 tonnes per annum. Tesla said *"where we can be assured that minerals, including cobalt, are coming from mines that meet our social and environmental standards. Mining conducted in a responsible and ethical manner is an important part of the economic and social wellbeing of those communities"* (Sanderson 2020).

As Tesla is very careful about the transparence of its supply chain, so are other major corporations like VW, Toyota, Apple etc. Hence it is a very good news for Glencore as this deal is eventually going to attract other big players.

2.3 Recent incidents and consequences on stock price

2.3.1 U.S. Department of Justice Investigation on Glencore

The 3rd of July 2018, Glencore announced that the U.S. Department of Justice was investigating against them for corruption in the DRC. The stock has fallen 14% on the day of the news. Consequently, analysts at JPMorgan and Goldman Sachs removed the stock from their recommended purchases. According to an analyst based in London and working for Liberum Capital, “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” (Reed and Merced 2018).

When such news comes out, it is like a bomb for shareholders and they sell the stock in panic.

Figure 7 – Glencore Stock Price in July 2018

Source: TradingView n.d.

2.3.2 20 people killed in truck collision near Mutanda

Glencore announced the 22th February 2019 that 20 people died in a truck collision carrying acid. The truck was transporting acid to the Mutanda mine (Edward McAllister 2019). Sulphuric acid is used for copper production in order to dissolve copper and form copper sulphate (Copperalliance n.d.). Interestingly, this incident did not have a big impact on share price, as the price slightly dropped on the news but recovered very quickly the same day and over the weekend. No children were involved, and this incident could be categorized as a normal mining accident, thus not surprising the shareholders.

Figure 8 - Glencore Stock Price in February 2019

Source: TradingView n.d.

2.3.3 19 fatalities of illegal artisanal miners at KCC

Two galleries collapsed when illegal miners were working. 19 workers died in the incident (Glencore 2019). The stock lost 8% on the day of announcement but fully recovered the following day. It seems that there is panic-selling on such news but the stock recovers quickly. It is a similar situation with the truck collision in Mutanda. Safety issues seem to have less impact on the share price than corruption investigations. Even if the stock recovers from such news, it creates volatility which is not an advantage for Glencore. Investors would feel less confident with very volatile stocks.

Figure 9 - Glencore Stock Price in June 2019

Source: TradingView n.d.

2.3.4 Investigation by the Serious Fraud Office

When the SFO announced they would open an investigation against Glencore for bribery in the DRC, the stock fell 9% in one day and took more than a month to recover. As mentioned on the last page, it seems to be investigations linked to corruption that hurt the stock price the most.

Figure 10 - Glencore Stock Price in December 2019

Source: TradingView n.d.

2.3.5 Correlation between reputational incidents and stock price

There is a strong correlation between the share price and reputational incidents on the short run. A simple announcement of investigation can decrease the stock price by 14%. There is already an answer to the problematic of the thesis here; yes, the previous examples show an evidence that reputational risk can undermine the share price. This evidence shows the impact on stock price in the short run. To understand to what extent the share price can be impacted in the long run, the analysis should continue further.

2.4 Evolution of stock price

Glencore's stock price dropped by 68% since 2011. As a comparison over the same period, BHP Billiton stock price decreased by 19% and Rio Tinto stock increased by 18%, same increase for Anglo American. Glencore's stock has been outperformed by its competitors since its IPO. In fact, the stock price has dropped 51% since the announcement in 2018 of investigation from the U.S Department of Justice. It seems that there is a fear from investors about the various investigations and its consequence. Other factors such as weak market conditions of some commodities also played a role.

Figure 11 – Glencore Stock Price from 2011 to 2020

Source: TradingView n.d.

2.5 Analysts Ratings

Major banks' analysts cover Glencore's stock with ratings. They provide recommendation on whether an investor should sell, hold or buy the stock. For the majority of the banks, it is not possible for a retail customer or visitor to have access to these reports. They are exclusively reserved for investors, as for example a Credit Suisse customer would need to have access to their investment platform called HOLT to read their analysis on Glencore. It happens that other banks offering stock rating do not, for some reason, cover Glencore. This was the case with Swissquote. Otherwise it is pretty difficult to find good ratings from private analysts or websites. It seems that Glencore is only covered by the major financial institutions.

Fortunately, it was possible to have access to the UBS corporate report on Glencore released the 6 August 2020. UBS are known for their excellent analyzes with a conservative approach on risk. On 7 August 2020, the stock was trading at GBX 166p. UBS' 12 month-rating is 'buy' with a price target at GBX 280p, a stock return of +47.8%. The Swiss bank recommends buying the stock because they believe the stock value is very attractive at the moment. Additionally, Glencore presents a robust balance sheet and commodity mix well positioned for a good recovery. According to UBS, what will really make Glencore outperform is management change, deleveraging, regulatory investigations (DOJ, SFO) cleared and improved situation of DRC copper. Interestingly, three of the four points mentioned above are part of the research question of the thesis. The change in management should happen this year, as Ivan Glasenberg (CEO) said the managers of his era should retire in 2020, and he would also retire very soon (Jack Farchy and Thomas Biesheuvel 2019). Glencore announced they would not pay dividend for 2020 and instead deleverage. The African copper EBITDA turned positive in 1H20 which was a loss of $349m in 1H19. Even if the future remains uncertain due to the COVID-19, Glencore is very responsive and hope for a quick recovery (Myles Allsop, Daniel Major, and Shilan Modi 2020).

On 7 August 2020, Barclays also recommended buying the stock (Marketbeat n.d.).

On 15 July 2020, Goldman Sachs rating was buy. JPMorgran Chase & Co on the same date said they expected a price boost but considered the unexpected outlook, reducing position size in Glencore could be appropriate (Marketbeat n.d.).

Between May and June 2020, Credit Suisse, Citigroup, Royal Bank of Canada, Liberum Capital all expected a price boost in Glencore's stock (Marketbeat n.d.).

The only way to access to more details about the ratings above is trough paying a $400 annual subscription. Therefore, only the final rating is written.

2.6 Who are the shareholders?

Glencore is the main shareholder with 9.45% of equity. In case of reputational scandal, the company itself would obviously not sell its shares (MarketScreener n.d.).

The second main shareholder is Qatar Holding LLC with 9.17% of the shares (MarketScreener n.d.). It is a subsidiary of the Qatar Investment Authority, a governmental entity from Qatar. Their goal is to invest to create long-term value to the state. Since it is a governmental company, the QIA values a high level of ethical standards. The QIA is not focused on short-term performance but on long-term investments. Therefore, Qatar Holding sees potential on the long run with Glencore. They prefer low risk investments, their assets are diversified including Volkswagen, Barclays, Harrods, Credit Suisse, Heathrow, Total (Qatar Investment Authority n.d.).

From the different assets above, Glencore is probably the company with the most volatility on the stock market. Thus, Qatar Holding is monitoring very closely Glencore's activities. Furthermore, since Qatar Holding LLC represents a government, they are sensitive on reputational issues, as themselves could also be accused by other countries to invest in unethical companies. Therefore, Qatar Holding could eventually sell its shares in case of reputational scandal causing a decrease on share price.

The current CEO, Ivan Glasenberg, owns 9.10% of the shares. As long as he is working for Glencore he would keep the shares in case of reputational issues (MarketScreener n.d.).

Harris Associates LP, an investment company based in Chicago owns 5.46% of the shares of Glencore (MarketScreener n.d.). Their strategy is also based on long-term investments, buying shares when they see important discounts. An important part of their analysis is based on quantitative metrics, to understand if a stock is below its intrinsic value (Harris Associates n.d.). This company does not emphasize the importance of ethical behavior and reputation of the companies in which they invest. They would be less sensitive to a reputational scandal than Qatar Holding.

Daniel Maté and Aristotelis Mistakidis, two retired traders from Glencore, own together 6.79% (MarketScreener n.d.). As Mr Mistakidis was in charge for operations in DRC, it is unlikely that he would sell his shares due to DRC issues.

The rest of the shareholders with between 1% and 3% of ownership are asset management companies such as The Vanguard Group or BlackRock (MarketScreener n.d.). Some investors buying funds might be sensitive about sustainable investment. A part of them would not like to invest in commodity trading related business for ethical reasons. BlackRock or Vanguard could eventually sell shareholding in Glencore due to pressure from their investors. According to Mike Fox, head of UK equities at Co-Operative Asset Management; “Sustainable investors will always have an issue with the very fundamental nature of these businesses” (Eric Onstad, Laura MacInnis, and Quentin Webb 2011).

Moreover, there is a trend indicating that financing fossil fuel is not the future. For example, Norwegian government announced in 2019 they would eventually divest its 2.03% stake in Glencore, for an amount of $1 billion. The government has nothing against Glencore, they simply agreed to not invest anymore in companies that mine more than 20 million tonnes of coal annually. Glencore did not comment this action; it will be interesting to see on the 2020 annual report how the Norwegian stake in Glencore evolved as there is no more information about it at the moment. This could surely affect the share price to the downside when it happens (Gwladys Fouche 2019).

Norway is known for their incentives for a green economy. Other developed countries tend to follow this trend but it takes more time for them. As a leader in cobalt mining, Glencore is well positioned for this market, but some of their commodities such as coal may suffer from this transition in the future.

2.7 Economics of commodities related to Glencore's activities in the DRC

2.7.1 Why Cobalt And Copper

The DRC is rich in copper and cobalt. Copper production generated US$ 15,68 billion in 2019 while Glencore does not communicate on cobalt revenue. As a comparison, revenue from marketing activities for metals and minerals was US$ 73,56 billion, much higher than industrial activities for metals and minerals at US$ 27.67 billion of revenue. Even if Glencore considers itself as a mining company, the main part of their revenues comes from pure trading. However, margins are higher with industrial activities so it can be a lucrative business as well. Mining EBITDA margin for metals and mineral was 28% in 2019. For marketing activities (metals and minerals) the EBITDA margin was only 1.6%. Interestingly, the metals and minerals EBITDA is even higher for mining activities at US$ 5.55 billion (US$ 1.17 billion for marketing activities) (Glencore 2020). Therefore, EBITDA is even more important than revenue and should be considered in this analysis. In commodity trading, margins are tiny, and the companies' profitability is low. It explains why volume is important on the marketing side. As Glencore is a public company, it is crucial to be profitable. If they are not, share price will decrease as investors will lose interest. In order to understand if the company can be profitable in the future, a focus should be made on economics of commodities mined in the DRC.

2.7.2 Copper

Copper is one of the oldest and used metals. It is widely used around the world for building construction, transportation, electronic and consumer products as well as for industrial equipment. The advantage of copper is its physical properties, as copper is the best nonprecious metal to conduct electricity. Annual worldwide copper production was 20 million tonnes in 2019. Chile and Peru are the major producers while China is the biggest consumer. The DRC is the 5th largest copper producer in the world with an output of 1,3 million tonnes in 2019 (National Minerals Information Center 2020). The metal comes from underground mines and around 10% of its total production is recycled (Lawrence Pines 2019).

There are numerous factors impacting copper price. The first one is emerging markets, because developing countries need housing and transportation infrastructure to continue growing. Therefore, China has played a major role in copper price. Emerging economies like India or Brazil can also have a significant impact. The housing market also plays a role in copper price, as copper is used for construction. For example, in the U.S., construction industry represents half of copper demand (Lawrence Pines 2019). Political decision is probably the most important factor. For example, in 2019 the price of copper was negatively impacted by the trade war between US and China, since it created uncertainty on trade and tariffs. The price was positively impacted when a trade agreement between US and China was announced at the end of the year ("Glencore 2019 Annual Report" n.d.).

Another determinant is supply disruption which is frequent due to natural disasters or strikes from mining employees (it happened in 2019 in Chile). The last element impacting copper price is substitute commodities. As any other commodities, substitution is a risk. For copper, substitution could occur on Chinese low-end consumer goods for which material selection is not so strict. However, for the main use of copper in construction and infrastructure, it is important for security reasons and reliability to use quality materials. On that matter, copper is superior than its competitors (see table below) (Li Lan 2011).

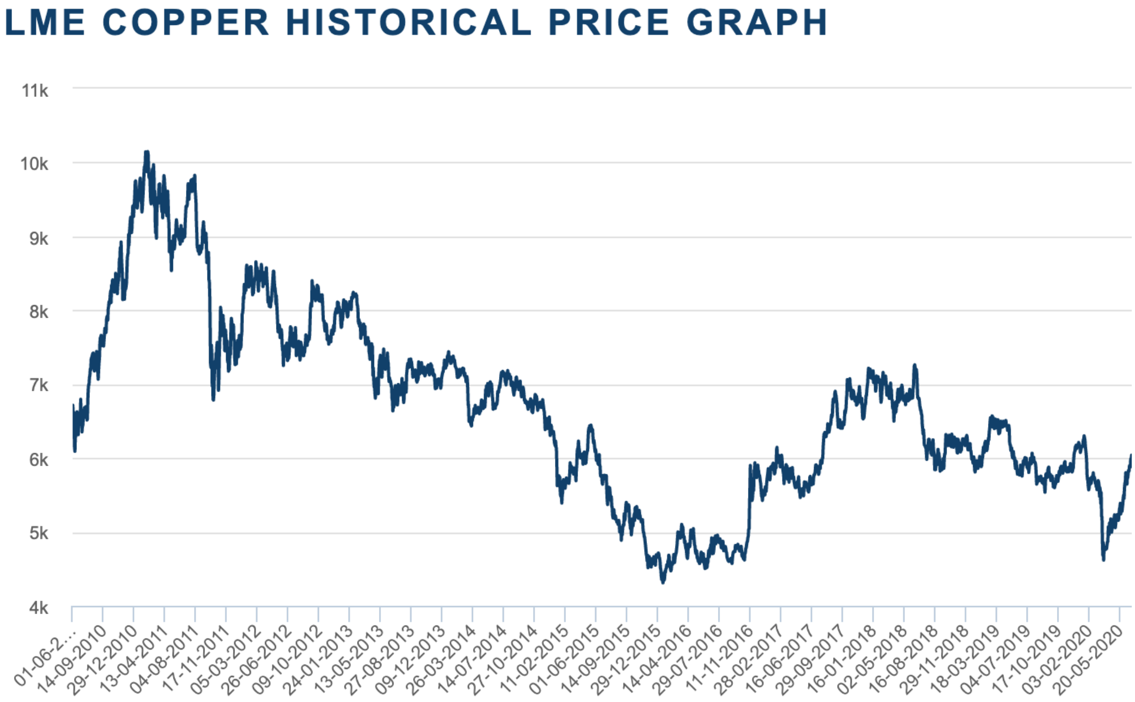
Usually, by considering these elements, copper is a very good indicator of global economy condition.

Figure 12 – Copper's competitors

Properties of Cu	Level	Competitor	Usage
Electrical conductivity	• Second to silver • Exceeds aluminum by more than one-half	Al	wires, cables, leads, electronics and related devices.
Thermal conductivity	• Second to sliver • Two times of Aluminum	Al	heat exchangers, radiators, refrigeration units, waste desalination plants, and other industrial applications.
The chemical stability		Stainless steel and zinc	water tube, valves, roofing, siding, gutters and downspouts.
Workability	Excellent	Plastics	be made to desired color, texture or luster for decoration etc

Source: BGRIMM LI Lan 2011

Figure 13 - Bearish copper price in US$ per tonne over the 10 last years



Source: The London Metal Exchange 2020

The forward curve is in contango with lower spot price. A normal curve is the typical scenario for copper, meaning there is an excess supply compared to demand. This commodity could eventually be easier to trade since it is most of the time in contango. Traders buy low and sell higher in the future.

Copper future contracts are traded on several exchanges, the most important one being the London Metal Exchange followed by the New York Mercantile Exchange and Shanghai Futures Exchange. These contracts are forward contracts traded electronically and standardized to facilitate trade. There is a legal commitment to deliver the physical commodity at expiration of the future contract. This is when the price of the future must become the price of the physical (price convergence). Traders use future contracts to hedge as a price risk management tool. They take the opposite position to offset price risk and can eventually make profit because they buy physical at a certain price and sell higher at future prices.

Figure 14 – LME copper prices for future contracts

Data valid for 30 June 2020

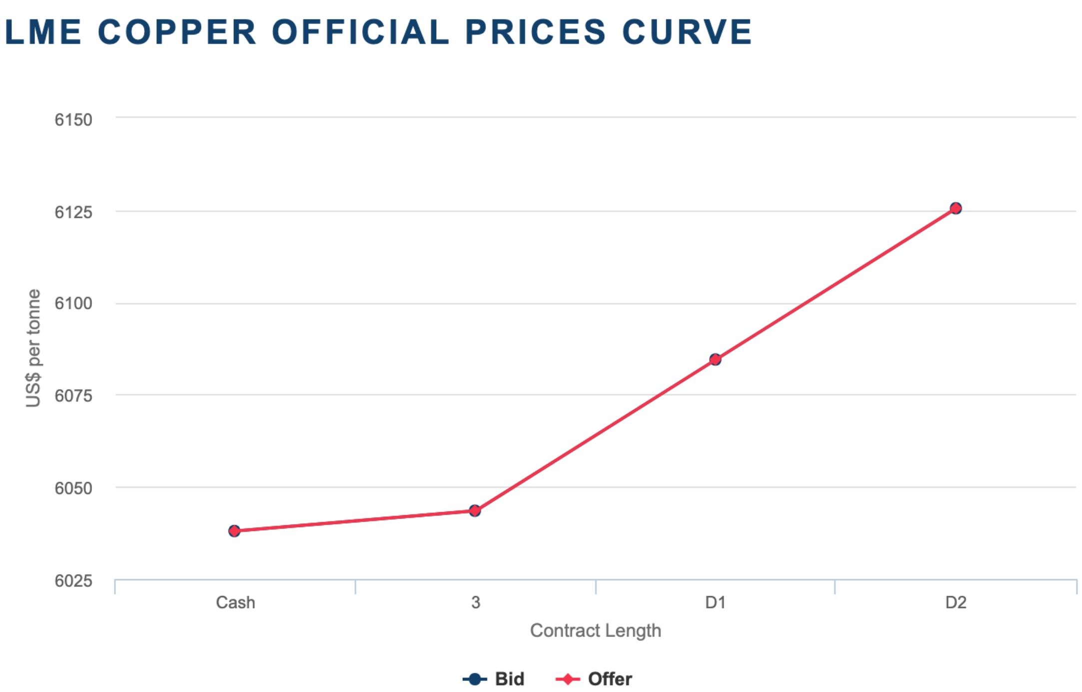
LME COPPER OFFICIAL PRICES, US$ PER TONNE

CONTRACT	BID (US$ / TONNE)	OFFER (US$ / TONNE)*
Cash	6038.00	6038.00
3-months	6043.50	6043.50
Dec 21	6084.50	6084.50
Dec 22	6125.50	6125.50

* LME Official Settlement Price = cash offer

Source: The London Metal Exchange 2020

Figure 15 – LME copper forward curve



Source: The London Metal Exchange 2020

2.7.3 Market Outlook

In their 2019 annual report, Glencore expect a solid growth on copper markets in the long run. The increase in global demand will be due to rising living standard in emerging markets. That statement was before Covid-19; the impact of the pandemic might bias this information as it remains unknown on how development of emerging countries will be impacted.

The transition to a low carbon economy will develop copper markets as renewable power generation, energy storage and electric vehicles need an important quantity of copper. On a very long term, supply will be constrained by its limit in reserve of resources. Especially in DRC, there are much less reserves than other countries like Chile. A decrease in supply will eventually increase copper prices in the future. In summary, the market outlook is bullish, a positive news for Glencore (Glencore 2020).

2.7.4 Cobalt

Cobalt is a by-product of copper and nickel. It has been classed as a critical raw material by the EU, due to its importance for a sustainable future and the 60% global supply coming from the politically unstable DRC. Half of the cobalt production is used for rechargeable (lithium-ion) batteries. Every mobile phone, laptop, tablet, electric vehicles, electric trains, home storage contains cobalt. Since tech industry and sustainability have grown significantly the last couple of years, the controversial cobalt is more and more popular. Cobalt is also found in electronics, catalysts, alloys and healthcare (Cobalt Institute 2020).

Glencore is in a good position by being the biggest producer of cobalt with around 33% of world's output. Total production was 124,344 tonnes in 2018, about 160x less than copper (Cobalt Institute 2020).

Cobalt has been substantially discussed for ethical issues, as some artisanal miners in DRC are children or slaves working in poor safety conditions.

Glencore admitted in their 2019 annual report that the positive results from marketing activities for oil were offset by negative value adjustment on cobalt inventories. Interestingly, even if cobalt is not the main part of Glencore's business, it can have an impact on the profitability of the company. Cobalt price was weak in 2019 with an average of $16/lb. It is a volatile commodity, in 2018 the average price was $37/lb and in 2017 $26/lb (Glencore 2020).

Factors impacting the price are prices of copper and nickel, political decisions, supply disruption and substitute commodities. Supply disruption happened this year as Covid-19 forced Katanga to shut down for a while. Substitution is a real threat, as the battery industry represents 50% of total use. There is a certain pressure from end consumers that want to avoid cobalt for ethical reasons. If some engineers find a new technology to replace cobalt at similar cost, they would certainly develop that technology reducing cobalt demand. This has become a reality. Elon Musk already announced Tesla has almost finished developing cobalt free batteries. These next-gen batteries are called lithium iron phosphate (Zhang Yan, Yilei Sun, and Brenda Goh 2020). So far, all automakers still use lithium-ion batteries, and they will probably do so for a couple of years, the time they need to test and finish developing the next-gen batteries. Since Tesla is the reference in term of technology, their new cobalt free batteries would probably influence other car makers to use them as they are less costly.

Glencore admitted in their 2019 annual report that the positive results from marketing activities for oil were offset by negative value adjustment on cobalt inventories. During 2019, price of cobalt was 57% lower than the previous year. Reasons for lower prices last year included a weaker than expected Chinese electric vehicles sales and destocking across the supply chain. Interestingly, even if cobalt is not the main part of Glencore’s business, it can have an impact on the profitability of the company. Cobalt price was weak in 2019 with an average of $16/lb. This commodity is more volatile than copper, in 2018 the average price was $37/lb and in 2017 $26/lb (Glencore 2020). The price surged in 2017 and 2018 due to an expected rising demand in cobalt and the fear of trade tariffs between U.S. and China. Manufacturers bought cobalt in large quantities in order to store and avoid potential tariffs (Belmont Metals 2019).

Figure 16 - Cobalt price over the 10 last years in US$ per tonne:

Source: The London Metal Exchange 2020

Figure 17 - LME cobalt prices for future contracts:

Data valid for 30 June 2020

LME OFFICIAL PRICES, US$ PER TONNE

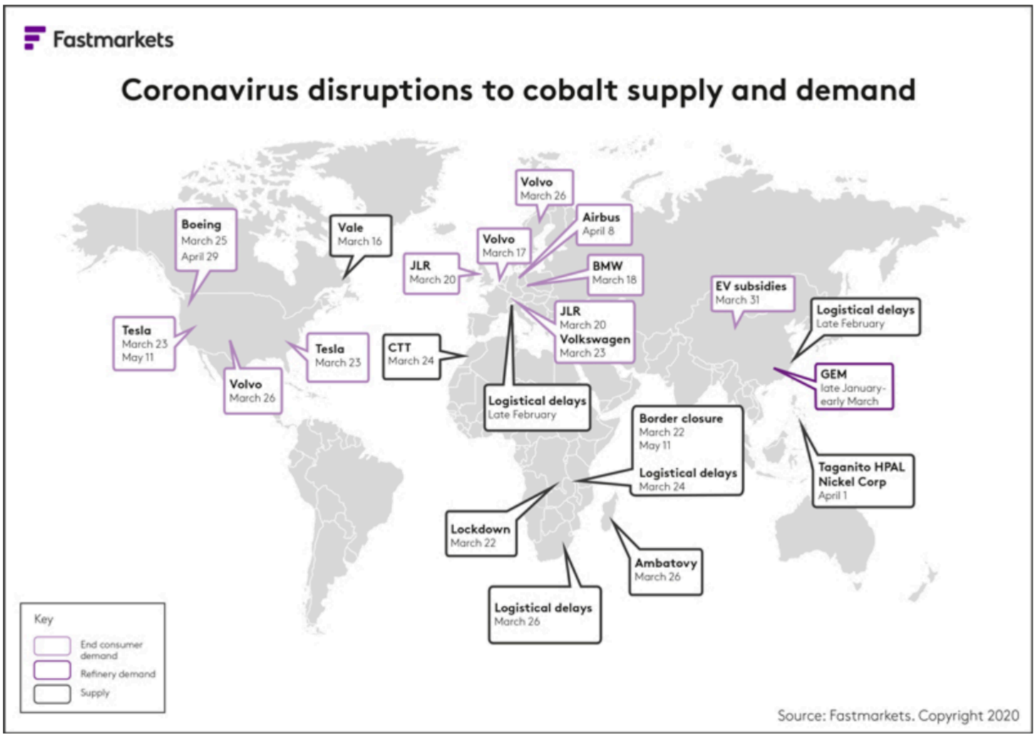
CONTRACT	BID (US$ / TONNE)	OFFER (US$ / TONNE)*
Cash	28500.00	28500.00
3-months	28500.00	28500.00
15-months	30155.00	30155.00

Source: The London Metal Exchange 2020

Figure 18 – LME cobalt forward curve

Source: The London Metal Exchange 2020

Figure 19 – Coronavirus disruptions to cobalt supply and demand



2.7.5 Market Outlook

Glencore expects 11.5 million electric vehicles sales and a worldwide demand of 200'000 tonnes per annum by 2025 which will have a positive effect on cobalt price.

Some major automakers will release new EVs which should increase sales for a strong future demand. Even with Covid-19, sales of EVs in EU have been strong. The major supply deal with Tesla occurred during this period. The aerospace sector suffered more due to the pandemic, but should slowly restart production, thus needing cobalt (Metalbulletin 2020). With the 5G technology coming, there is a positive sentiment for the mobile phone market as well which is an important industry for cobalt. Therefore, market outlook is bullish for the mid and long term (Glencore 2020).

2.8 Market sentiment of a professional metal trader

In order to obtain data from an insider of the commodity trading industry, a second interview has been conducted, this time with Mr Felix Cauro, trader at Concord Resources Limited based in Hong Kong. Concord is a trading company specialized in non-ferrous metals. The group revenue was US$4.2 billion in 2018 with a gross profit of US$ 134 million. Mr Cauro is the Head of Asia-Pacific for trading of copper, aluminium, zinc and lead across both raw materials and refined materials since 2015. He was working as a metal trader for Noble Group in London and Singapore from 2012 to 2015. Mr Cauro holds a MSc in Mechanical Engineering from the EPFL.

2.8.1 Commodities As A Market

The first question was to understand if investors should consider investing in commodity trading companies. According to Mr Cauro, commodities, as an asset class, have over the past 10 years heavily underperformed other asset classes like e.g. equities, bonds or real estate. With that in mind, it is fair to assume that a correction should be seen to the upside. Furthermore, given low prices over the past decades or so, there has been very little to no CAPEX and most of the old large mines are currently running on lower ore grades, which means less metal contained in the ore, less copper for example for the same amount of ore mined.

Triggered by COVID-19, it is likely to see very easy monetary policies from central banks and stimulus in any way possible from various governments. Around the world, it is very likely that stimulus will be in form of infrastructure spending which is bullish for commodities.

The whole story of Electric Vehicles is also quite bullish and helped cobalt/nickel prices in 2017 a lot, the story is still there, and should stay. Mr Cauro thinks we are probably at the bottom of a bullish cycle on commodities (albeit short term demand shock triggered by COVID-19). According to his view, investing in commodities at the moment could be a smart decision.

2.8.2 Glencore Position

The second question was to get his point of view on the position of Glencore; is it the right investment choice? Mr Cauro said that Glencore is uniquely positioned as a company to capture upside movements in prices, their exposure to key commodities like nickel, cobalt and copper is huge.

FY 2019 EBIDTA is US$ 11.6 billion, copper represents ~ US$3.5 billion, so Glencore is clearly very dependent on Copper. Cobalt is a by-product from Copper, so is not in "accounting terms" separated for them, but basically it just lowers their Copper Cash Cost, hence contributing to EBIDTA. DRC produces around 60% of the world’s cobalt and a good part of that is Glencore, so that market is very reliant on Glencore's ability to produce.

Glencore’s main risk in Mr Cauro’s view is reputational, weather that is in DRC with all the below mentioned (and more) or with various DOJ investigations on the way. They have a lot of skeletons in their closet, which can hurt for sure.

2.8.3 Cobalt Specifics

As Concord is trading cobalt, Mr Cauro gave some interesting facts about it. According to him, there has been a big push from the industry to "clean up" the supply chain, with something called "green cobalt" with various initiatives around blockchain etc. The main concern is traceability of the cobalt.

It is hard to imagine groups like WW or BMW want to develop a full supply chain relying on Glencore and DRC for 70% of their feed, hence why things have been much slower than expected, but TESLA recently signed a multiyear deal with Glencore for DRC cobalt, literally only a couple of days ago, and again they have proven that with the right framework it is doable, so maybe the other more traditional car makers will someday catch up and that will for sure help lift the cobalt price. However, Mr Cauro thinks it is still such a small market to really have an impact on Glencore’s share price.

3. Quantitative Fundamental Analysis

As previously seen, reputation issues have a negative short term (few days or weeks) impact. What about mid and long-term? It is very hard to find data showing to what extent the stock price is impacted due to reputation risk. However, it is possible to find data (not linked with reputation) explaining what drives Glencore's stock price. As any commodity trading firm, Glencore's success depends on commodities prices which are volatile. Could it be the reason why Glencore's stock is so volatile? To find out, an index representing various commodities should be found. It will allow to track the performance of various commodities from 2011 until now, and then compare the performance with Glencore's stock.

3.1 The S&P GSCI Index

The best index for this analysis is the S&P GSCI Index because it is the most recognized benchmark representing the global commodity sector. The components of the index are weighted by their respective world production. The S&P GSCI is well diversified by containing the 24 most important, currently existing commodities. Since the index is based on production, the weight of each commodity in the index depends on many factors such as type of economic growth; is it industrialized economies dominating growth or emerging markets? Depending on the situation, metals could have more weight or agriculture and petroleum-based commodities would be more important when emerging markets lead. Currently, it is by far petroleum commodities that have most weight in the index. The index returns are calculated mainly with long futures positions (Goldman Sachs n.d.).

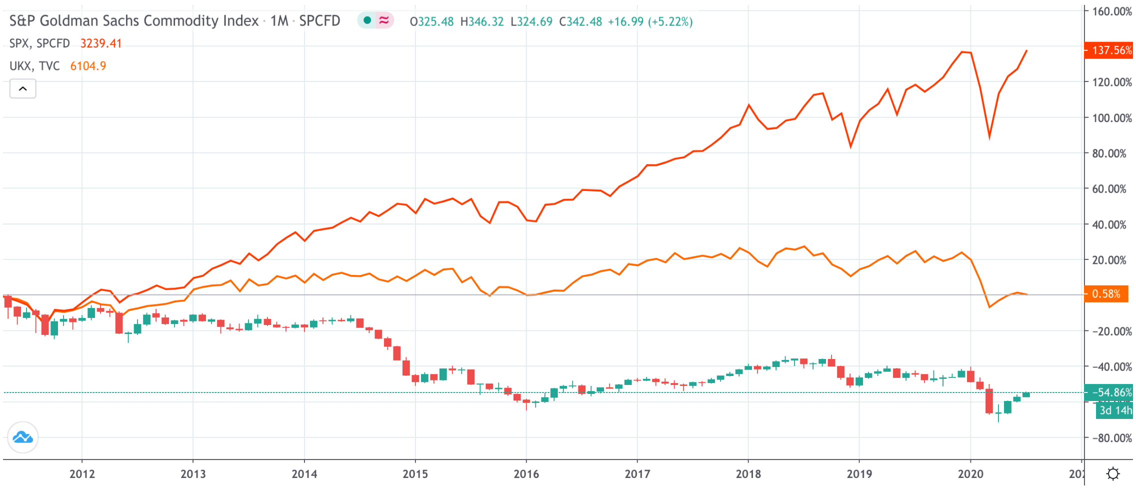
On the graph below, the candlesticks represent the S&P GSCI Index and the orange line Glencore's stock. On the Y axis, the performance in percentage is indicated. There is a strong correlation between commodities prices and Glencore's stock price. From June 2011 to July 2020, the performance of the S&P GSCI was -54.79%. The performance of Glencore's share was -65.15%, only 10.36% difference with the S&P GSCI. Visually, by comparing the two graphs, there is already the proof that on the long run, commodities prices affect Glencore's stock price more than reputation.

Figure 20 – Comparison between Glencore stock and S&P GSCI Index

Source: TradingView n.d.

The commodity market has been underperforming global economy over the last decade. Below on the graph, the S&P 500 index is represented by the red line with a performance of 137.56%. The orange line corresponds to the FTSE 100 (100 largest companies listed on the London stock exchange, including Glencore). The performance was 0.58% from 2011 to 2020.

Figure 21 – Comparison between S&P 500, FTSE 100 and S&P GSCI Index



Source: TradingView n.d.

3.2 Brent Crude Oil

Since crude oil represents an important part of the S&P GSCI Index, it is interesting to see that Glencore's stock is very correlated with Brent crude oil performance (similar with WTI). Brent crude oil is represented with the candlesticks and Glencore with the orange line.

Glencore is dependent on oil performance, as soon as oil price drop or increase, Glencore's share price tends to follow the move.

Figure 22 – Comparison between Glencore stock and Brent crude oil price

Source: TradingView n.d.

3.3 Correlation test between Glencore, S&P GSCI and Brent Crude Oil

The previous part provided a nice visual representation of a certain correlation between Glencore's stock and the S&P GSCI Index / crude oil performance. In order to get precise data about this relationship, a correlation test has been conducted. The first data selection for this analysis was Glencore's stock price from its IPO in 2011 to July 2020 (each month). Since the stock is in GBP Pence, a conversion to USD had to be made with an average yearly rate to not bias the correlation test. Then, in order to do a comparison and verify the correlation, the prices of the GSCI Index and Brent crude oil over the same period of 109 months have been selected. The starting month is June 2011 corresponding to Glencore's IPO. The currency of the GSCI and Brent is USD. An example of how the data was retrieved is presented on this table:

Table 1 – Example of data for the correlation test

Month	Glencore stock price (pence)	Glencore Stock Price (GBP)	Yearly Average Rate GBP/USD	Glencore Stock Price (USD)	S&P GSCI Index (USD)	Brent Crude Oil (USD)
2011	NA	NA	NA	NA	NA	NA
June	491.00	4.9100	1.6041	7.8761	668.85	111.74
July	475.70	4.7570	1.6041	7.6307	686.08	116.59
August	421.46	4.2146	1.6041	6.7606	674.69	114.39
September	402.90	4.0290	1.6041	6.4629	591.00	102.09
October	438.00	4.3800	1.6041	7.0260	647.96	109.14
November	398.50	3.9850	1.6041	6.3923	658.02	110.35
December	392.00	3.9200	1.6041	6.2881	644.91	107.06
2012	NA	NA	NA	NA	NA	NA
January	411.20	4.1120	1.5848	6.5167	660.68	110.99
February	432.00	4.3200	1.5848	6.8463	703.50	122.85
March	389.40	3.8940	1.5848	6.1712	688.71	122.88
April	425.60	4.2560	1.5848	6.7449	684.88	119.39
May	340.50	3.4050	1.5848	5.3962	596.20	101.55
June	295.54	2.9554	1.5848	4.6837	599.44	97.58
July	320.14	3.2014	1.5848	5.0736	635.82	104.52
August	385.04	3.8504	1.5848	6.1021	675.03	114.81
September	343.10	3.4310	1.5848	5.4374	665.73	112.10
October	343.04	3.4304	1.5848	5.4365	637.74	108.39
November	345.50	3.4550	1.5848	5.4755	650.05	111.17
December	351.30	3.5130	1.5848	5.5674	646.58	111.25
2013	NA	NA	NA	NA	NA	NA
January	393.46	3.9346	1.5647	6.1565	675.37	115.60

Source: RStudio program

All the data from June 2011 to July 2020 has been inserted in R studio program in order to make a correlation test. Below, R (in red) represents the correlation coefficient. It is a statistical measure of the strength of the relationship of the relative movements of Glencore's share price and the GSCI index. The range of the correlation coefficient can vary between -1 and 1. After running a correlation test, the coefficient is at 0.86 which is close to 1 and indicates a very strong relationship.

Figure 23 – S&P GSCI correlation test result

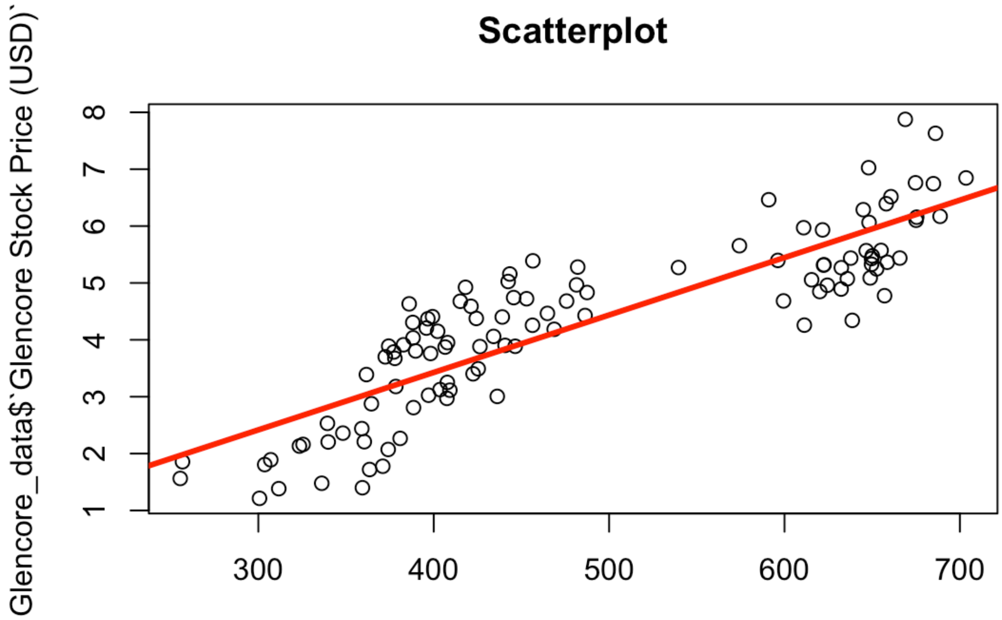
```
> cor.test(Glencore_data$`Glencore Stock Price (USD)`, Glencore_data$`S&P GSCI Index (USD)`
)

	Pearson's product-moment correlation

data:  Glencore_data$`Glencore Stock Price (USD)` and Glencore_data$`S&P GSCI Index (USD)`
t = 17.755, df = 108, p-value < 2.2e-16
alternative hypothesis: true correlation is not equal to 0
95 percent confidence interval:
 0.8060389 0.9041623
sample estimates:
      cor
0.8630287
```

Source: RStudio program

To demonstrate the relationship between Glencore's stock price and GSCI Index, a linear regression model has been made to show the trend of such data. The dependent variable (Y) is Glencore's stock price and the independent variable (X) is the S&P GSCI Index. This is because Glencore's stock price depends on the commodity index.

A scatterplot is used to show objectively whether the stock price and the GSCI index are correlated. The points are following the red line closely, meaning a high degree of correlation. Since the points form a straight line, there is a strong relationship between Glencore's stock price and GSCI Index. The red line is the regression line model. All the points would have to be exactly on that red line for a perfect relationship between the stock price and the GSCI index.

Table 2 – S&P GSCI correlation test result



Source: RStudio program

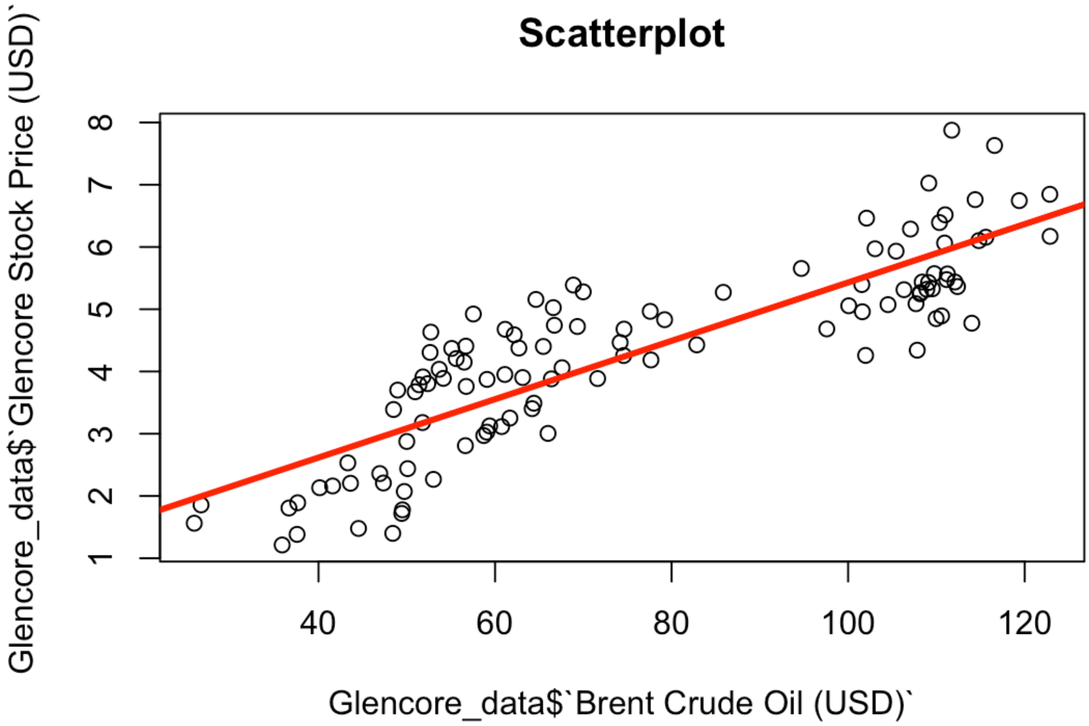
The correlation between the share price and the Brent Crude oil price is similar with a correlation coefficient of 0.85.

Figure 24 – Brent crude oil correlation test result

```
> cor.test(Glencore_data$`Glencore Stock Price (USD)`, Glencore_data$`Brent Crude Oil (USD)
`)

        Pearson's product-moment correlation

data:  Glencore_data$`Glencore Stock Price (USD)` and Glencore_data$`Brent Crude Oil (USD)`
t = 17.273, df = 108, p-value < 2.2e-16
alternative hypothesis: true correlation is not equal to 0
95 percent confidence interval:
 0.7975949 0.8997530
sample estimates:
      cor
0.8568691
```

Source: RStudio program

Table 3 – Brent crude oil correlation test result



Source: RStudio program

Forces that can move a stock are supply and demand. The more investors buy a stock, the higher the price will go. The inverse is when investors short a stock, the price will decrease. Usually, investors buy or sell stocks depending on the performance of the company. They look at earnings per share and dividends as well as other technical factors such as strength of a specific market (Harper 2019). It is particularly the case with Glencore which is tracking the commodities market. It seems that some investors would invest in Glencore to track oil prices as there is a strong correlation.

4. Conclusion and Recommendations

The purpose of this bachelor thesis is to understand if the reputation risk related to Glencore's activities in the DRC can be an impediment to making an investment or sell one's shareholding stake in Glencore. There are different types of reputational risks. Glencore is exposed to corruption, health, safety, environment, climate change, community relations and human rights.

Evidence shows that investors fear a sanction for corruption from the U.S. Department of Justice and the Serious Fraud Office. A reputational scandal can lead to a loss of trust from stakeholders and cause an impediment to making an investment or sell Glencore's share. Stakeholders trust represent a certain value of a company's goodwill. By losing trust, Glencore can lose value. Furthermore, it is crucial for a commodity trader to be trusted by suppliers, customers, banks for financing. If they lose trust, they will lose deals. It is very hard to know what is the level of trust of actual stakeholders. Based on this analysis, there are indicators that despite the ongoing investigations, there is still trust from customers and analysts. In the qualitative analysis, evidence shows to what extent reputation risk can undermine Glencore's share price on the short-run. Since corruption is dealt on the basis of criminal law, Glencore could be held liable for penalties that are higher than other types of reputational risks which are based on civil liability.

Economics of principal commodities mined in the DRC were analyzed in order to identify a potential correlation between the stock price and copper or cobalt. Mining activities in the DRC represent a good part of Glencore's EBITDA. Any reputational issue linked to Glencore's activities in the DRC could disrupt production and decrease the company's profitability, thus the share price and dividends.

Mr Cauro gave his sentiment on Glencore and on commodities as a market. His conclusion is that there should be a bullish cycle coming for commodities. The COVID-19 will eventually lead to easy monetary policies from central banks and stimulus from various governments. Around the world, it is very likely that stimulus will be in form of infrastructure spending which is bullish for commodities. He agrees that Glencore is dependent on copper due to the high contribution to EBITDA. In his point of view Glencore's main risk is reputational, weather that is in DRC or with various DOJ investigations on the way.

It is relevant to have bank analysts' ratings on Glencore because they are sensitive to any risk, especially those linked with reputation. If their rating is 'buy', then it means in their opinion such risk should not decrease the stock value in the following year. Analysts from UBS recommend buying the stock because they believe the stock value is very attractive at the moment. Additionally, Glencore presents a robust balance sheet and commodity mix well positioned for a good recovery. According to UBS, what will really make Glencore outperform is management change, deleveraging, regulatory investigations (DOJ, SFO) cleared and improved situation of DRC copper.

By looking at the VW emission scandal, the stock lost a third of its value in 2015 and did not recover so far, so the impact of reputational damage can be important. However, VW is a worldwide major scandal causing negative externalities to the world's population, obviously the impact would be smaller for Glencore since it deals with money laundering and bribery with only one country. Furthermore, Glencore knows that investigations are ongoing and what they risk financially, so it can be assumed that they know what they would potentially have to pay as an eventual penalty, if there is one.

The penalty is one element, the second main risk on the long-run is the cost to recover stakeholders trust which is impossible to tell.

There is no quantitative data existing showing the reputation risk impact in the long-run on the stock. Therefore, the quantitative analysis is based on finding what factors drive Glencore's share price. A correlation test has been conducted and the outcome is a 0.86 correlation between Glencore's share price and the S&P GSCI Index. Since this index is heavily weighted with energy commodities, a correlation test has been made with Brent crude oil price. The result is a 0.85 correlation, meaning Glencore's share price is dependent on oil price.

There is something subjective about the reputation risk. Every investor may have different opinion on it. For some investors, the reputation risk will make an impediment in buying the stock because of their own values; for example, some investors have zero tolerance for corruption, and would not like to invest their money in a company which might have been involved in any bribery or money laundering. Some other investors will only look at the performance, and will give less importance to the reputation of a company. If the performance of the stock is affected by a reputational damage, then it would become an impediment for buying the stock to any investor. This risk creates some uncertainty on whether Glencore will have to pay a penalty or not and the amount of an eventual penalty has to be determined to know to what extent it can undermine the share price. Furthermore, the cost to recover stakeholders trust must be taken into account. Glencore is certainly aware of the economic value of their reputation. Their current actions show that they want to improve it. This may still take years as it is a lengthy process.

Because it is not possible to know to what extent share price will be impacted by the reputation risk in the future, the recommendation should be based on measurable elements such as the proven correlation between Glencore share price and commodities prices. Buying the stock would be the recommendation for the following reasons;

- Glencore presents strong financials.
- Possibly at the bottom of a bullish cycle for commodities.
- Low carbon economy transition will lead to growth on the copper and cobalt markets.
- Government stimulus due to COVID-19 could be in form of infrastructure spending which is bullish for commodities and Glencore.
- Glencore’s stock price is low at the moment with a good value.

However, this recommendation is made for investors that have a certain risk appetite and knowledge in the mining industry. Glencore’s stock is volatile, and many stocks of other industries are safer.

On the other hand, volatility increases risk which can lead to higher profits in some circumstances.

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Appendix 1: Interview with Mr. Laurent Matile

Julien Grosjean:

If a CSR scandal happened in DRC, could a Congolese family or person sue Glencore in court? Or is it not likely to happen because they possibly don't have the funds to go to court? In that case, Glencore would not have an important financial risk about that.

Laurent Matile:

From a procedural point of view, it is possible for a family, which would be harmed in its human rights to sue the subsidiary owned by Glencore in DRC. It is presumed that this subsidiary is owning the assets in DRC.

My point is the following; Glencore is a network of companies located in different jurisdictions around the world; they are headquartered in Switzerland, in Baar/Zug, but the group is controlling many different companies, which from a legal point of view have their own legal independence. They have their own legal personality. I take it that Glencore is owning a company in DRC, established in accordance with Congolese company. I don't know the exact legal nature of that company. If this is the case, then yes, the answer (this is my academic answer obviously), is that anyone whose rights have been harmed can sue in DRC the Congolese subsidiary which is owned by Glencore headquarters in Switzerland.

Julien Grosjean:

Is there an international court where they could go for violation of human rights? It makes sense to know that because we know the country is potentially corrupted (government could be on Glencore's side for political reasons). An international arbitrator would be more neutral?

Laurent Matile:

On that point, one has qualified my first (academic) answer: it is very difficult for any private person in a developing country to go to Court. There is a question of costs, there is a question of mastering the legal language and the procedures and so on and so forth. And also - and that's probably the point you are referring to) - people might be scared that the government might, as you are saying, protect or be on the side of Glencore. That obviously still has to be demonstrated. It is part of the difficulties for anyone in a developing countries' environment with all the problems we know with regard to the independence of the judicial system. Obviously, there is an element of fear and a potential lack of trust in the independence and the impartiality of the judicial system in a country such as the Democratic Republic of Congo. That is part of all the difficulties; material, linguistic, procedural, or governance related issues which any family, by definition poor families, which lives in the neighborhood of these assets, encounter whenever they decide to possibly defend their rights before the justice in their home country. There is a way of course, there is a court system in DRC and such a court system should be in principle, an avenue for families to possibly sue the subsidiary owned by Glencore in DRC. As far as the first part of your question is concerned, there is no international court competent for judging human rights violations in a country.

Julien Grosjean:

Related to that, is there any organization that can help those families to go to court? Or, do they have to do it themselves and finance a lawyer themselves?

Laurent Matile:

There are local NGOs which often offer their services for free to families or people whose human rights are violated. These NGOs might be part of an international network, so they could obtain some support from a foreign NGO or from an international network of NGOs. That' s usually the only possibility from a financial point of view. The only possibility for affected communities to embark on what is by definition a lengthy process. You also have to go through the length and complexity of the case. Usually, these people simply don't have the time to pursue these processes because they have another emergency which is to survive and cater to their families.

Julien Grosjean:

If an individual in DRC had right to accuse Glencore for human rights violation and that the judge accepts his accusations, in your experience, would the amount of a potential penalty be very high? Do you think these sanctions are smaller than the ones for corruption?

Laurent Matile:

It depends where the case would be taking place. I don't know the details of the DRC civil liability rights. What we have to understand is that human rights violation are usually dealt on the basis of civil liability which means that what you might qualify as a penalty is actually the financial compensation for the actual damage caused to the family. So, usually these damages are not very high. You are talking about compensating possibly for the loss of a field or for loss of income because of pollution. So, individually taking these damages might not be very high, unless you are speaking about a large scale pollution. If you're talking about damage to health, usually the compensation is limited to the necessary medical care given to the person or if the person can't work anymore, the loss of earnings should be compensated because as you can imagine, a family father or a mother in the DRC is not earning millions of US dollars. So the damage is to be compensated in a case of human rights violation. According to civil law, these are limited amounts. And let me add that this is not what is causing any fear to companies like Glencore, i.e. the amount of money is not the problem. The problem is a reputational damage.

Corruption as you know, is criminal law. If it can be demonstrated that there is a case of corruption in, for example, the DRC and that it can be demonstrated that the headquarter is linked to that corruption, then you might have a case before the Swiss criminal or judicial power. Not only individual people could be held liable from a criminal point of view, but also the company according the Swiss criminal code. The company Glencore itself could be (I'm not saying it's easy), but it could be held liable and the penalties in this case are much higher. This is article 102 of the Criminal Code. The judge has a wide margin of maneuver to define what the damage can be or is. There is a clause which talks about "la capacité économique de l'entreprise; le juge fixe l'amende en particulier d'après la gravité de l'infraction, du manque d'organisation, et du dommage causé, et de la capacité économique de l'entreprise". So there's a tremendous margin of assessment by the judge. In that case, the risk for the company is linked to the potential penalty - and here you are talking about a fine which of course might be much higher than the potential damage linked to a civil liability case in DRC.

Julien Grosjean:

I looked at the historical prices of the share price of Glencore. As soon as there was a news about U. S. investigating Glencore or Serious Fraud Office investigating Glencore, the share price dropped. When other news about an acid spill or child labour came out, the share price dropped just a little bit, but recovered the following day. So, it seems that the corruption issue is impacting the share price more.

Laurent Matile:

That's – to say the least- interesting. I have no comment to make because I don't know that situation. But that might hint to a potential correlation between what is perceived as a legal risk, which might be perceived, including by the shareholders, as much higher when it comes to criminal law.

Julien Grosjean:

Why do you think reputation is so important for Glencore? Why would they invest in a $25 million community support fund for Africa?

Laurent Matile:

Well, I am not sitting in the board of Glencore (smile), so it is difficult for me to assess which are the real reasons or motivations behind such a decision. What I know is that Glencore aims at respecting human rights. There have adopted a policy statement and related code of conduct. From a reputational point of view, they are arguing that they are respecting human rights and, beyond respecting human rights, that they also contribute to the well-being of the local communities which are impacted by their activities. I guess that this investment is part of a larger endeavour to be seen as a responsible enterprise operating in DRC. If a company commits to respecting the UN Guiding principles on Business and Human rights, the company has to deal with their potential human rights violations within its core activities and supply chains. If there is any harm caused or any potential harm caused to the communities which might be impacted by the activities, the company has to address and mitigate this risk. And if damage is caused, they have to compensate for the damage. My point is that this is interesting and it is nice, of course, for companies to sponsor community projects. But this cannot offset their responsibility to respect human rights linked to their activities in the DRC.

Julien Grosjean:

Would you say that corruption is a CSR issue or is it different?

Laurent Matile:

I think there are different shades - if I may say – related to CSR issues. The first answer is yes; no doubt corruption is part of the many issues which are regarded in a broad sense as CSR. For example, in the OECD guidelines on multinational companies, which Glencore also endeavours to implement, corruption is one of issues dealt with, together with human rights and the environment, among others. So, yes, in that broad sense, it is a CSR issue. This being said, as we have seen, corruption is now regulated by international conventions and agreements, at the UN, OECD, Council of Europe level, aiming at combating corruption on a global basis, and hence, it has been regulated as a criminal offense. This is not an issue which is left to the CSR departments, but is usually the responsibility of the legal or compliance departments. So, this might indicate that companies care more about certain CSR issues, when they are regulated; I.e. when these CSR issues become criminal law, then, of course, they end up on the highest priority list. No company and even less board members would like to take the risk to be held liable for a criminal penalty. And of course, you need a legal basis to define the situation in which not only the company itself but also the members of the board might be individually held liable for the violation of corruption laws.