



global witness

Global Witness Q&A on Glencore in the Democratic Republic of Congo

Glencore is the world's largest commodities trader, controlling roughly half the world's traded copper and over a fifth of the world's traded cobalt. Congo is a key producer of both minerals.

Global Witness has been investigating Glencore's recent acquisitions of world class mining assets in Congo. Worryingly, these have taken place amid opaque dealings involving the Congolese government, Glencore and its long-standing partner Dan Gertler, an Israeli businessman who is a close friend of President Joseph Kabila.

What are Glencore's interests in Congo?

Glencore operates three copper and cobalt mines in the southeast of the Democratic Republic of Congo (DRC), which have been valued at \$4.6 billion. Two of those ventures, the Kansuki and Mutanda mines, together are expected to add at least 40% to the world's cobalt output, and increase Congo's copper production by about 40% (compared to 2011 production figures) once they are fully developed.

What are the links between Glencore and Dan Gertler in Congo?

Glencore's mining deals in the country have been shrouded in secrecy and they are all wound up with Dan Gertler, a controversial businessman who is a friend of Congolese President Joseph Kabila.

In Congo, a scandal has been raging around the secret sales of stakes in six copper and cobalt mines since early 2010. According to the data that Global Witness has gathered – which is disputed by Mr Gertler and the Congolese authorities - these assets were all sold off in secret by Congolese state mining companies at a small fraction of their commercially estimated values. Sometimes the sales prices were in the region of five per cent of the valuations.

The immediate buyers of these mining assets were offshore companies, whose full list of shareholders is a secret. However, information has been coming to light that several of these offshore companies - registered in the British Virgin Islands and elsewhere - are linked to Mr Gertler.

For example, buried in a 1,600-page report (the Prospectus prepared by Glencore ahead of its listing on the London Stock Exchange in May 2011) were statements that offshore companies associated with Mr Gertler had bought stakes in two of the mines it operated in Congo. These companies bought the stakes from the Congolese state mining company Gecamines, and now they are co-owners of the mines alongside Glencore.

The deals were secret at the time they were concluded in March 2011. Glencore released its prospectus in May 2011. Further details of the deals were made available when the contracts were later published on the Gecamines website.

Mr Gertler's companies got the mines at bargain-basement prices – although Mr Gertler disputes this (see our briefing for shareholders and Mr Gertler's responses to our questions).

Why does Mr Gertler appear to be getting mining assets so cheaply?

That's a good question. Neither Global Witness nor, most importantly, the Congolese people have been privy to the inner workings of Congolese decision-making. Because of this and the secret nature of the deals, it is impossible to know for sure.

So, these companies get the mines on the cheap. What happens next?

One of two things happens:

1. Some of the companies associated with Mr Gertler have sold on stakes in the mines at vastly higher sums – something Mr Gertler challenges.
2. Mr Gertler's companies keep hold of their stakes, with the intention of reaping profits over the longer term. Often the Gertler-associated companies have all their costs covered under generous loans from their international partners.

What does all of this mean for Congo?

Congo - a desperately poor, war-ravaged country - is losing out on billions of dollars of revenues.

The Congolese state is getting very little in return for many of its best mines. The profits are going into the hands of unknown people and their international partners.

It's also worth thinking about what Congolese authorities might be doing with the money from the mine sales. In 2011, some of the proceeds were used by the Congolese government to cover costs related to the 2011 election, which returned President Kabila to power. The polls were condemned as flawed by international diplomats and election observers and were marred by killings committed by government security forces.

So, lots of the mines have been sold off now. Isn't it too late to do anything then?

With such huge sums of money at stake, with more minerals to exploit in Congo, and with the Congolese people still in the dark about where their money has gone, this is too important a matter to let rest.

Secret sales of natural resource wealth to offshore companies in Congo is now sadly a firmly established pattern going back to well before 2010.

And this is not just about Congo's mines. Congo is expecting a boom in oil production, and at least two oil blocks have been sold off in very similar circumstances.

What are Global Witness's chief concerns?

In Global Witness's opinion, the recent mining deals linked to offshore companies exhibit a number of danger signs that could indicate possible corruption:

- The mining assets have been sold at extremely low prices
- The sales took place in secret
- There were no tenders.
- That real shareholders of the companies getting the assets are secret

Global Witness finds it difficult to understand why Mr Gertler's companies have been getting so many assets in secret, and why the prices they pay are consistently so far below commercial estimates.

We're concerned that corrupt government officials or their proxies could be among the secret owners of the many offshore companies involved.

We're worried that Mr Gertler may be unduly benefiting from his friendship with President Kabila – something that Mr Gertler's representatives vehemently deny.

These concerns raise legitimate questions about who is actually benefitting from the deals. Congolese citizens have a right to know.

What needs to happen?

Global Witness is urging Mr Gertler and his business partners to list all the “beneficial owners” – that is, the real owners – of all the companies involved in these mining deals.

International companies partnering with Mr Gertler should fully and publicly disclose all they know about his offshore companies and, if his companies are deemed to be a serious corruption risk, they should end their collaboration.

International firms should be careful of stepping in as the end-buyer of stakes in mines sold off in such questionable circumstances, or even of partnering up with offshore companies involved in such deals. If they end up funding these offshore entities in any way, they risk effectively completing a circle of corruption – perhaps providing the funds that allow corrupt officials to be paid off.

What should Glencore's shareholders do?

Shareholders of listed firms should remember that listed companies are failing in their duty if they are not completely open about the business entities linked to them.

Glencore's shareholders should be asking questions about who the owners of the offshore companies are in this case, as well as seeking all other relevant information relating to the Glencore-Gertler relationship. This information should be released into the public domain.

If companies associated with Mr Gertler are deemed to be a serious corruption risk, Glencore should cease collaborating with them.

Even if they're not worried about ethics in this case, Glencore's shareholders should be concerned about their own investments. There's no shortage of examples of corruption scandals hurting the share prices of a company.

Glencore's shareholders should also consider the risks of key assets being intimately tied up with political interests – that is, could their assets survive an eventual change of government?

Can Congo's donors do anything?

A \$550 million IMF aid programme to Congo is currently frozen but they're considering restarting it soon. The World Bank is considering providing hundreds of millions more dollars of governance aid to the country.

The UK alone is planning to provide £900 million of aid to Congo between 2011 and 2015 in bilateral aid (that doesn't include the large amounts it also gives via institutions such as the World Bank, the IMF and the UN).

The IMF and the World Bank should intensify pressure on Congo to ensure this issue is properly addressed. While humanitarian aid must continue, Global Witness questions the wisdom of continuing with such large amounts of governance aid at a time when the governance of Congo's resources is in such dispute.

Donors should scale back governance aid until they are confident that the Congolese government is fulfilling its basic duties regarding transparency and anti-corruption measures.