Opinion Glencore

Glencore's pursuit of Teck sends its careful coal message up in smoke

Miner wants to spin off the business despite previously arguing holding on to it was better

HELEN THOMAS

Soaring coal prices in the aftermath of Russia's invasion of Ukraine have boosted Glencore's profits © Reuters

Helen Thomas 3 HOURS AGO

The question of coal has dogged the mining sector for the best part of a decade. This highly polluting carbon is generally a distraction or embarrassment as miners position themselves as crucial providers of the metals needed for the energy transition.

Most of the biggest miners have (slowly) tried to get rid. Rio Tinto was out first. BHP has a little left of the thermal stuff used for power generation but has more metallurgical coal, needed in steelmaking. Anglo American spun out its South African thermal coal business into new company Thungela in 2021.

Glencore is the exception. The miner has effectively argued that holding on to its big thermal coal business is not only the economically preferable course but (don't laugh) the morally superior one.

Glencore's chair said its "responsible stewardship model", which means keeping coal in a large, diversified, listed group with high standards, was the correct one for all stakeholders: "The ESG responsibilities for these assets are best managed by Glencore as a responsible operator rather than leaving these to be someone else's problem."

And it, to some extent, prevailed. Sure, it faces a shareholder resolution in May asking for more disclosure and whether its plan is truly aligned with Paris climate goals. But responsible investment bods around the City now argue for "nuanced" or "sophisticated" thinking on coal ownership. That nuance has served Glencore well, at least in terms of cash flow. Soaring coal prices in the aftermath of Russia's invasion of Ukraine more than tripled its ebitda from coal last year, which accounted for more than half its earnings.

But suddenly Glencore does want to spin off coal, as part of its $23bn hostile takeover bid for Teck Resources, a family-controlled company long seen as attractive but unbuyable. Glencore argues that Teck's existing plans to split the group would sully both parts thanks to a royalty agreement that would see most cash from the metallurgical coal business pledged to the metals company. Better, it says, to combine into a GlenTeck metals business and a new CoalCo, listed on the New York Stock Exchange.

Glencore, which sometimes seems constitutionally incapable of admitting even to a change of heart, denies any shift in its "responsible stewardship" strategy — though the phrase is notably absent from its letters and presentations around Teck.

Others disagree: "complete U-turn", "definitely a strategic change", "undermines their argument" were some thoughts from investors, analysts and bankers this week. The Teck chair, in rejecting Glencore's latest approach on Thursday, noted icily "as you have now publicly stated you are prepared to spin out your thermal coal business, we suggest you proceed with that".

Of course, Glencore always said it would separate coal if most shareholders wanted that, safe in the knowledge that nearly a fifth of the stock is held by former boss Ivan Glasenberg and Qatar's sovereign wealth fund. The miner said that "we intend for" the new coal group to reduce production (more than 80 per cent from Glencore assets) in line with existing net zero strategies, with a chair and board nominated by the two parent companies.

The woolly language rather concedes that, as things stand, there is nothing to bind the new coal company to a Paris-aligned runoff. A US listing promises more investors unbothered by coal, who prioritise cash flow yield over climate credentials. "A separate coal vehicle can prolong the life [of coal] and ignore the inevitable continued rise of mainstream investor ESG pressures", says Tim Buckley at Climate Energy Finance.

It is possible — and bear with me here — that, despite the principled talk, Glencore was doing what suited Glencore best and that its calculus has changed given falling coal prices and the apparent need for a split to get Teck even to consider playing ball.

Whichever, it will spark up fresh questions from two sides. There are investors — and not just activist Bluebell, which this week added another letter to its long agitation for Glencore to split coal — who argue the valuation discount from owning coal ultimately needs addressing, regardless of the Teck deal outcome.

The climate-focused folk who backed Glencore's approach should also have pause for thought. Their buy-in extended to giving a de facto blessing to moves such as Glencore's purchase of the stakes in Colombia's Cerrejón mine it didn't already own.

If the Teck tilt fails, they should be demanding more detail and tougher commitments on Glencore's stewardship of its coal assets — to avoid feeling suckered when the next dealmaking opportunity comes along.

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