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Glencore's coal spin-off plan: Responsible investors are right to be concerned

- *Although Glencore states it is committed to responsibly reducing its coal production and Scope 3 emissions, it will no longer have control over these factors if it proceeds with plans to spin off its coal business.*
- *Previous divestments of coal assets by diversified miners have put control in the hands of pure-play coal miners that have optimistically bullish outlooks with plans to increase production.*
- *Glencore's spin-off plan arrives in the context of rising investor concerns about the responsibility of coal divestments and growing pressure on Scope 3 emissions.*
- *Although Glencore likes to highlight the brighter outlook for metallurgical coal, the spin-off would be predominantly a thermal coal miner.*

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Glencore has entered into a binding agreement to acquire 77% of [Elk Valley Resources \(EVR\)](#), the Canadian metallurgical coal business of Teck Resources. Upon closing, Japan's Nippon Steel will hold 20% of EVR and South Korea's POSCO will hold 3%. Glencore's intention following completion is to spin off EVR in combination with its existing, predominantly thermal coal mining business into a separate entity. The spin-off will need the approval of Glencore's shareholders.

This is despite growing investor concern that spinning off or selling coal mine operations is not the responsible course of action when it comes to carbon emissions. In 2022, [Fidelity International](#) highlighted that managing down coal mine capacity "beats divestment for real world carbon impact". It also praised BHP's decision in 2022 to retain and manage down its Mt Arthur thermal coal mine in New South Wales, rather than attempting to find a buyer.

Investors have increasing concerns about how responsible it is to divest coal mine operations given the lack of any emissions impact such a move would have. Indeed, emissions may actually



rise if the new owners seek to increase output. In addition, investors may not be keen to lose the cashflows that result when coal prices are high, which could be reinvested in commodities with a brighter long-term future. Investors increasingly have policies barring them from holding shares in pure-play coal companies, and some may prefer diversified miners like Glencore to keep their coal operations, so they can maintain their exposure to coal.

Glencore’s coal spin-off has been proposed amid rising [investor pressure on the Scope 3 emissions](#) of fossil fuel producers. [Glencore itself has already faced growing scrutiny](#) over its climate plans and Scope 3 emissions. Following the [shareholder rejection](#) of Woodside’s climate action transition plan in April, Glencore likely will face further pressure at its May 29 AGM.

Measured against a restated 2019 baseline, [Glencore aims](#) to reduce Scope 1, 2 and 3 emissions by 15% by the end of 2026, 25% by the end of 2030, and 50% by the end of 2035. It also has “an ambition to achieve net zero industrial emissions by the end of 2050, subject to a supportive policy environment”.

Prior to the proposed acquisition of EVR, [Glencore had revealed its plan](#) to manage down its coal mine capacity, reducing its Scope 3 carbon emissions. Between 2019 and 2023, Glencore closed down five coal mines, and it states that it intends to close down at least seven more by the end of 2035.

Figure 1: Scope 3 dominates Glencore’s overall emissions

The below table summarises our emissions performance for 2019 to 2023

	2019 restated	2020 restated	2021 restated	2022 restated	2023	Change 2023 vs. 2019
Scope 1 – Direct emissions (Mt CO ₂ e)	19.0	15.2	16.0	16.4	16.7 ^o	-12.0%
Scope 2 – Indirect market-based emissions (Mt CO ₂ e)	13.9	11.6	13.0	12.8	10.3 ^o	-25.9%
Scope 3 – Indirect emissions (Mt CO ₂ e)	520.7	414.0	412.9	368.3	405.8	-22.1%
Total (Mt CO₂e)	553.7	440.8	441.8	397.5	432.8	-21.8%

Source: Glencore 2024-2026 Climate Action Transition Plan.

Recently, some Glencore investors have voiced concern about the spin-off plan. [Tribeca Investment Partners](#) stated in a letter to Glencore’s board that: “Retention and responsible depletion of fossil fuel assets are at the frontier of environmental governance. We see this as being the view of industry leaders, political commentators, and asset managers alike.” Tribeca is also keen for the retention of the coal business so that its cashflows can be invested in future-facing commodities.

[Abrdn](#) – one of Glencore’s top 20 shareholders – has made clear that it does not believe divesting from coal is the right course of action for Glencore, stating: “In most circumstances, we do not believe that simply divesting as quickly as possible will achieve the best outcome” [...] “companies need to have credible strategies that support real-world decarbonisation. This includes a timeline for a managed phase-out, interim milestones, and defined strategies to reach them. A credible phase-out strategy is also likely to facilitate a just transition and minimise the impact on workers, communities and regional economies.”

Another [unnamed top-ten Glencore shareholder](#) has reportedly informed the company that it opposes the spin-off plan, and [others are also believed](#) to be opposed to the proposal.



Until recently Glencore itself held the position that offloading its coal mine operations was not the responsible thing to do. In 2021, [Glencore CEO Gary Nagle](#) stated that the company's plan to hold onto and manage down its coal mines was the "responsible strategy for both our business and for the world". He added: "We do not have any of our major investors asking to spin off coal. In fact, they have come to realise... that perhaps spin-offs are the wrong scenario."

“ Our Board believes that 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.”
– Glencore chairman Kalidas Madhavpeddi (April 2022).

In April 2022, [Glencore’s chairman Kalidas Madhavpeddi](#) stated: "Our Board continues to believe that our responsible stewardship model for our coal assets is the correct one for all stakeholders. It is not just that simply passing carbon-intensive assets to others will not get the world to net zero – it is likely to be less effective in doing so while increasing other ESG [environmental, social and governance] risks and reducing transparency. Our Board believes that 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."

[Former CEO Ivan Glasenberg](#) said in 2020 that Glencore would keep and run down its coal mines stating: "I don't see how spinning off coal mines will help us reduce Scope 3 emissions."

Figure 2: Responsibly reducing Scope 3 Emissions is a key strategic pillar of Glencore’s Climate Transition Action Plan

2024-2026 Climate Action Transition Plan overview:

Our climate ambition and targets are underpinned by four strategic pillars:

- 1. Managing our operational footprint;**
- 2. Responsibly reducing our Scope 3 industrial emissions;**
- 3. Advancing tomorrow through our transition-enabling commodities portfolio; and**
- 4. Driving new business models.**

Source: Glencore 2024-2026 Climate Action Transition Plan

In its new [2024-2026 Climate Action Transition Plan](#), Glencore highlights 'Responsibly reducing our Scope 3 industrial emissions' as one of the four strategic pillars of its climate ambition and targets. In addition, the company states: "For a standalone combined coal and carbon steel materials business, we would intend for the demerged company to continue to oversee the responsible decline of its thermal coal operations in line with Glencore's current targets and ambition to achieve net zero emissions by 2050, subject to a supportive policy environment."

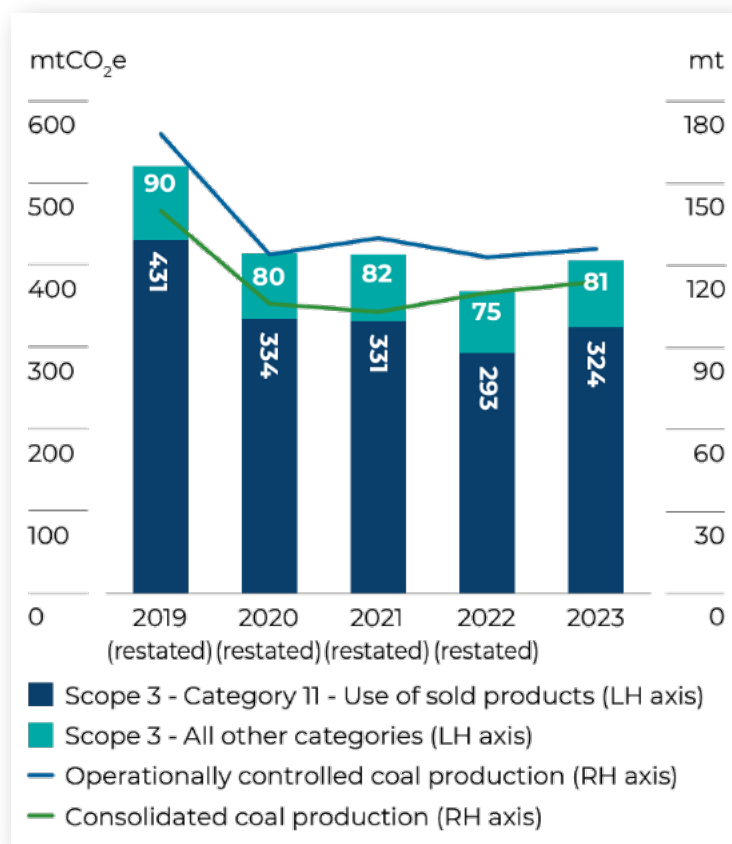


However, Glencore will have no ability to ensure that its plan to manage down coal mine capacity and responsibly reduce Scope 3 emissions is followed post-demerger. As any spin-off approaches, Glencore will be less incentivised to reduce coal mine capacity further and the new management of the spun-out coal company, may be even less inclined to continue the closures. They may even change course completely and seek to increase capacity.

Would a spun-off coal company continue to manage down capacity?

[Simon Mawhinney, chief investment officer of Allan Gray](#), maintains that the divestment of coal assets by companies like Glencore creates a “net negative” because the new owners would likely care less about managing them responsibly.

Figure 3: Glencore’s Scope 3 emissions rose in 2023 on the back of increased coal production



Source: Glencore 2024-2026 Climate Action Transition Plan

The management of a spun-off, pure-play coal company is likely to be far more bullish about the long-term outlook for coal and less likely to want to manage down capacity than the management of a diversified miner. In addition, shareholders in a pure-play coal company would be unlikely to include the more climate-concerned investors who may retain holdings in diversified miners. As a result, pure-play coal investors are less likely to put pressure on management to address Scope 3 emissions and seek a responsible phase-down of mine capacity.

Despite [Glencore’s intention](#) that the demerged coal company will “continue to oversee the responsible decline of its thermal coal operations in line with Glencore’s current targets”, its new 2024-2026 Climate Action Transition Plan highlights why there is no guarantee that the spun-off company would hold the same view on managing down capacity. Most obviously, the plan states: “If the demerger occurs, the respective businesses will require their own standalone climate strategies and action plans.”



Glencore's new climate plan also walks back some previous commitments made on coal and emissions, which may help pave the way for new management to reverse course on reducing volumes. In the wake of the EVR acquisition, [Glencore has withdrawn a five-year old commitment](#) to keep coal production below 150 million tonnes per annum (Mtpa). The plan also changes [Glencore's position](#) on reducing emissions in line with the International Energy Agency (IEA)'s Net Zero Emissions (NZE) scenario, stating: "Our targets are not aligned with the IEA NZE scenario, an increasingly unrealistic scenario due to the extent to which policy, technology and investment are lagging this pathway."

In addition, the new Climate Action Transition Plan includes caveats to the mine capacity run-down plan that could be used by the spun-off coal company to justify maintained or increased production. [Glencore states](#), "If the global adoption of clean energy technologies and carbon capture technologies do not sufficiently advance, we see a role for unabated thermal coal for electricity generation beyond 2040."

Carbon capture technology has a long history of significant underperformance over decades and its outlook is poor. Despite Glencore's own efforts to push [controversial carbon capture technology](#) forward, any plans to use it to extend the lives of [coal-fired power plants](#) and [blast-furnace based steel plants](#) are fraught with [technical and financial risks](#).

Glencore also uses [the new plan](#) to paint a more positive picture for the future of metallurgical coal, attempting to link demand with the need for steel to build renewable energy infrastructure: "We therefore anticipate that steelmaking coal operations are expected to follow a different emissions reduction trajectory than thermal coal operations." However, [IEEFA analysis](#) shows that the outlook for metallurgical coal is also one of long-term decline.

Examples of recent coal divestments

Recent examples of coal divestments by diversified miners – either via spinning off a pure-play coal miner, or by selling assets to a pure-play coal miner – demonstrate the risk that the new management of the proposed spin-off would abandon Glencore's plans for the run-down of mine capacity and the responsible reduction of Scope 3 emissions. Far from seeking to manage down the coal mining capacity, the new owners outlined below are focused on increasing production.

Anglo American's spin-off of Thungela Resources

Anglo American completed the spin-off of its export-oriented South African thermal coal mines in June 2021. Several months later, [Anglo American set a target](#) to reduce its Scope 3 emissions by 50% by 2040. The spun-off entity – Thungela Resources – does not have a Scope 3 target and gives no indication that it will address its Scope 3 emissions in any meaningful way.

A [number of Thungela's mines](#) are approaching the end of their operational lives but the company is seeking to replace depleting capacity rather than run down production volumes. The Elders mine project was approved by Thungela's board in 2022 and will replace volumes from the Goedehoop mine. In 2023, the Zibulo North Shaft project was approved, which will extend the life of the company's "flagship" mine through to 2038.

Thungela has also begun to diversify its coal mining footprint beyond South African borders. The company acquired the Ensham mine in Australia in 2023. Although the acquisition of an existing, operating mine does not in itself add to global emissions, Thungela is now targeting increased production from its new asset. The Ensham mine was operating at a production rate of 2.7Mtpa upon acquisition, and Thungela is now targeting an increase to 3.6Mtpa.



The company is also pursuing further coal mining opportunities, highlighting “Ongoing evaluation of additional organic and inorganic opportunities in line with our investment evaluation criteria” in its [2023 Integrated Annual Report](#). In 2023, [Thungela CEO July Ndlovu](#) stated: “We are going to continue to look for assets and we have always said we wanted to grow our business.”

“ We are going to continue to look for assets and we have always said we wanted to grow our business” – Thungela Resources CEO July Ndlovu.

With no Scope 3 emissions target, [Thungela states](#): “We advocate for a technology agnostic approach to a low carbon future, to address our scope 3 emissions, through our membership of the FutureCoal Alliance and the Coal Industry Advisory Board (CIAB) to the International Energy Agency (IEA).” The company claims that these organisations will help address the Scope 3 emissions of coal mining through their research into carbon capture, utilisation and storage (CCUS, which has a [well-established history of failure](#)), controversial [ammonia co-firing](#) and “high-efficiency, low-emission power plants.” There is [no such thing as low-emission coal-fired power plants](#).

BHP’s coal divestments to Whitehaven and Stanmore

BHP has recently been selling off its lower-quality metallurgical coal mines in Queensland to pure-play coal miners. It completed the [sale of its 80% interest in BHP-Mitsui Coal \(BMC\)](#) – which owned the operating Poitrel and South Walker Creek mines and the Wards Well development project – to Stanmore Resources in May 2022. Total cash consideration was up to US\$1.35 billion plus a final completion adjustment amount. Stanmore later acquired the remaining 20% interest from Mitsui.

In April 2024, BHP Mitsubishi Alliance (BMA) completed the sale of the [Daunia and Blackwater coal mines](#) to Whitehaven Coal for a total cash consideration of up to US\$4.1bn plus a final completion adjustment amount.

[BHP has a goal to reach net zero Scope 3 emissions by 2050](#), though it makes clear that a goal is not the same as having a target. Neither Whitehaven nor Stanmore have Scope 3 emissions targets or even report their Scope 3 emissions.

By [selling mines to Whitehaven](#), BHP has placed its management in the hands of a company that is openly bullish about the future of coal. [Whitehaven has stated](#), “We believe the energy transition will take decades, not years...”

[Whitehaven believes its acquisition](#) from BMA will provide significant synergies with its Winchester South proposal – a plan to open up a new 17Mtpa run-of-mine operation adjacent to the Daunia mine. Whitehaven acquired Winchester South from Rio Tinto in 2018. Whitehaven has also stated that it is considering opening up the undeveloped Blackwater South project, acquired as part of the [Daunia and Blackwater transaction](#). Prior to the sale, [BHP had sought approval](#) to open up this new mine to produce coal for 90 years, ending in the year 2112, before stating it would no longer invest in new mines in Queensland following updates to royalty rates.

In addition to these metallurgical coal mines, Whitehaven is also planning to open up new thermal coal capacity.

Stanmore is also seeking to expand existing operations – including capacity acquired from BHP – and develop new projects. [It claims](#) that it will achieve sustainable development through several means including “fostering and developing growth and reserve replacement initiatives”.



[Stanmore also makes clear](#) that this growth “will be complemented by targeted acquisitions that align with our growth strategy”.

[Stanmore’s expansion plans](#) include a project at South Walker Creek that will see run-of-mine coal production increase from 8Mtpa to 9.4Mtpa by the third quarter of 2024. New projects being considered include the Lancewood proposal, which is in the pre-feasibility stage. Stanmore also has a portfolio of prospective greenfield tenements in Queensland with a JORC resource of 2,178 million tonnes.

By April 2024, Stanmore had also acquired 100% ownership of the undeveloped [Eagle Downs and Eagle Downs South](#) projects from Aquila and South32 (see below).

South32 sells Eagle Downs and Illawarra Metallurgical Coal

In 2022, [South32 stated](#) that it would not invest in any new coal investments and indicated that it would wind down its coal business as existing mines were depleted. The following year rumours began to emerge that [the company would seek to sell its mines](#), rather than manage them down.

By early 2024, South32 had shifted firmly towards divestment of coal assets. In February 2024, the company divested its 50% interest in the undeveloped [Eagle Downs metallurgical coal project](#) in Queensland to Stanmore for US\$15m, a contingent payment and a price-linked royalty. Stanmore later acquired the other 50% from Aquila.

Having sat [fully permitted but undeveloped](#) for more than a decade, [Stanmore now states](#) it is in a strong position to “unlock the value of the asset to its full extent”. [The company describes the project](#) as a “Long-life asset underpinned by significant resource base, with a 40+ year mine life potentially adding significant longevity to Stanmore’s production profile”.

Also in February 2024, [South32 agreed to sell its operating coal business](#) Illawarra Metallurgical Coal (IMC) to an entity owned by Golden Energy and Resources Ltd (GEAR) and M Resources Pty Ltd for up to US\$1.65bn. Owned by the Indonesian Widjaja family, GEAR owns a majority shareholding in Stanmore Resources and will hold 70% of IMC. M Resources, which will hold 30%, is run by Matt Latimore, who sits on Stanmore’s board of directors. [Latimore stated](#): “We certainly are not afraid of owning a coal mine, operating a coal mine and having bigger stakes in the future.”

The declining outlook for coal

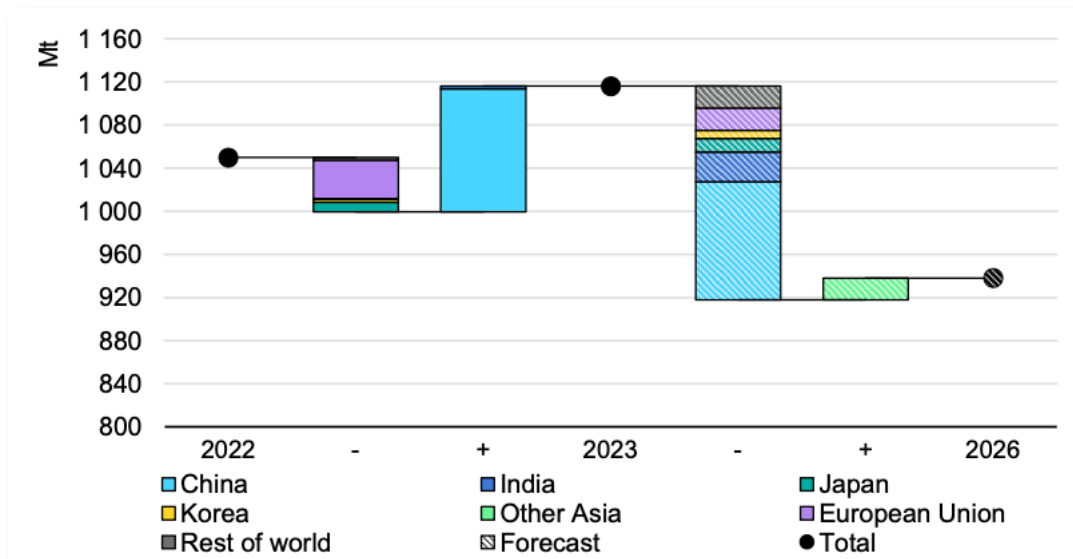
Glencore’s proposed divestment comes amid a declining outlook for coal exports. Although Glencore likes to highlight the brighter outlook for metallurgical coal, the spun-off company would be predominantly a thermal coal miner.

In its [2023 Integrated Annual Report](#), Thungela Resources CEO July Ndlovu attempted to make the outlook for seaborne thermal coal appear brighter, stating: “In its Coal 2023 report the International Energy Agency acknowledged that coal remained the largest energy source for electricity generation, steelmaking and cement production – affirming that coal will continue to play a central role in the global economy.”

What Ndlovu forgot to mention is that the IEA’s [Coal 2023 report](#) also stated that in its three-year outlook: “Global thermal coal imports are expected to have peaked in 2023 and then to fall to 2026, in line with the peak in global demand.” The IEA forecasts seaborne thermal coal trade to drop 16% by 2026, led by declining imports into China, India, the EU and Japan.



Figure 4: Global thermal coal import changes, 2022-26



Source: IEA Coal 2023

Meanwhile, the Australian government’s latest [Resources and Energy Quarterly \(REQ\) report](#) highlighted for the first time that the Asian seaborne thermal coal market has entered permanent decline.

Whitehaven Coal states a belief that thermal coal importers will gravitate towards [high calorific value \(high-CV\) Australian coal](#) in order to reduce emissions. However, there is no indication of that happening and, given the emissions reduction potential of such a switch is small, no nation has an emissions reduction plan that involves a switch to burning high-CV coal. High-CV coal in the Asian market is mostly imported by Japan, South Korea and Taiwan. As these countries execute their plans to reduce reliance on coal on their way to net zero emissions by 2050, there are no alternative high-CV markets to replace them. At a March 2024 generation fuels forum, energy and commodity data provider [Argus Media](#) noted a “waning demand for high CV, some cyclical, much structural”, and a “Quality shift away from high CV and towards lower qualities”.

Meanwhile, the [G7 economies have set a deadline](#) to end their coal-fired power generation for the first time. Unabated coal power generation is now targeted to end by 2035. The “unabated” loophole is unlikely to support thermal coal consumption – [carbon capture technology for power generation continues to significantly underperform](#), as it is in other sectors. Japan is a member of the G7 and Australia’s largest thermal coal export destination by far. Most of Glencore’s thermal coal production is in Australia.

The long-term outlook for [metallurgical coal is also in decline](#). Glencore uses its new [Climate Action Transition Plan](#) to paint a more optimistic picture for the future of metallurgical coal. In reality, the mounting risks for metallurgical coal are increasingly on the downside. The [Australian government’s latest medium-term forecast](#) highlights that world trade in metallurgical coal is already in decline. Australian metallurgical coal exports are forecast to peak in two years’ time and then decline out to the end of the decade, while Canadian exports are already in decline.

The [steel technology transition away from coal](#) is accelerating. Moreover, [CCUS is in no position](#) to protect the outlook for metallurgical coal. There is not a single commercial-scale CCUS plant for coal-based steelmaking anywhere in the world, and virtually nothing in the pipeline.



Conclusion

Glencore's [stated intention](#) that the demerged coal company will “continue to oversee the responsible decline of its thermal coal operations in line with Glencore’s current targets” looks hard to meet given past experience. Glencore will no longer have control over the production and Scope 3 pathway if it spins off its coal business as planned.

The short case studies provided above demonstrate that previous divestments of coal assets by diversified miners have put control in the hands of pure-play coal miners that have optimistically bullish outlooks with plans to increase their production.

Investors are increasingly concerned about a lack of commitment and action to reduce Scope 3 emissions among fossil fuel producers. There is also growing acceptance among investors that divesting coal assets is not the responsible approach to reducing emissions. Some Glencore shareholders have expressed concern about the company’s coal spin-off plan. In IEEFA’s view, previous, recent cases of coal divestments to pure-play miners show they are right to be concerned.

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