



MOZAMBIQUE FLASH NOTE

Enter, stage left, Erik Prince; method to the madness

Last week's announcement of a joint venture between Frontier Services and EMATUM triggered a frisson of nervous excitement among creditors. Did this mark the beginning of a turnaround for the demonstrably moribund special-purpose company¹, and the prospect of resuming debt service?

We believe there is considerably more to the story than meets the eye.

1) In the first place, a feature of joint-venture arrangements is that they leave intact the ownership structure of the participating entities.

This means that **Erik Prince's group is emphatically not assuming any of EMATUM's liabilities**, that vastly exceed its assets – at a time when the company has ceased operations, and its personnel are on strike to enforce their demand for the settlement of four months' salary arrears.

2) So what exactly is the entrepreneur after? Or, as civil society groups in Maputo are asking, **what possible attractions can Mozambique's debt-crippled economy hold** for an international investor with the stature of Blackwater's founder?

3) It is worth noting that the J-V was announced on the same day as ENI and Exxon closed their USD 2.8 billion farm-out/ farm-in transaction² for a 25% stake in the offshore Area 4 concession. Two days earlier, by a happy coincidence, the consortium operating **the Coral South project had agreed a USD 4.675 billion package** with a syndicate of seven lenders.

4) This floating liquefied natural gas (FLNG) venture will require an array of services, including *inter alia*, **logistical support; surveillance and maritime security**. These are precisely the services that the SPCs ProIndicus and MAM were purportedly established to provide to the offshore oil and gas sector.

5) In our view, **Mr. Prince is positioning his firm to capture a significant portion of this business**, with the EMATUM joint venture serving as a red herring. It was particularly significant that, in his press-conference with Antonio Carlos do Rosario³, he noted that while 'Phase one' would focus on the fishing industry, he might subsequently *"get involved in protecting Mozambique's oil and gas assets"*⁴.

6) As the J-V partner of one or more of the SPCs mandated to implement the Republic's – arguably fictitious – SIMP⁵ programme, **Frontier Services will clearly have the inside track on any related contracts** put out to tender. In addition, the firm's insurance arm would be in pole position to **provide coverage for the multi-billion dollar FLNG installation**.

So, far from the reckless gamble of a punter trying to call the bottom, **Mr. Prince's move strikes us impressively strategic**. As such, it is clear that bondholders will soon be disabused of whatever (fresh) illusions they are now harbouring.

¹ One of three such entities at the heart of Mozambique's secret loans scandal.

² Sources in Maputo report that payment of the capital-gains tax arising from the transaction is expected to materialized before year-end.

³ I.e. the concurrent CEO of EMATUM, ProIndicus and MAM.

⁴ As reported in *"Erik Prince to Partner with Mozambique Hidden-Debt Companies"*, posted by Bloomberg; Dec. 12, 2017.

⁵ I.e. The integrated system for the monitoring and protection (Sistema integrado de monitoria e de proteção) of Mozambique's 200-mile exclusive economic zone. This was adopted under Decree 91/2013, more than 12 months after ProIndicus had been incorporated.