Australian government funds Pacific telco purchase to head off Chinese influence

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Australia's largest telecommunications company, Telstra, is set to acquire Digicel Pacific, the largest mobile phone carrier in the Asia-Pacific region, in a government-backed plan to advance the country's anti-China foreign policy agenda.

The high level of cooperation between the Australian and US governments on this intervention makes clear that the central objective of the deal is to stem the growth of China as a rival to the US and its allies in the Asia-Pacific.

Under the arrangement, the federal government will stump up more than 80 percent of the $US1.6 billion purchase price in the form of a cheap loan to the fully-privatised Telstra, while assuming the financial risk. The government will also take care of costs associated with foreign exchange and repatriation of profits, by using customer revenue in overseas currency to pay for existing aid programs and paying Telstra in Australian dollars.

Telstra CEO Andrew Penn made clear in a statement just how favourable the deal was to the company: "We put in $US270m and for that we get 100 percent of the equity and we then get a dividend, which we expect to be $US45m, and our dividend is preferred above everything else."

When Telstra confirmed in July 2021 that it was making a bid to acquire Digicel Pacific, Prime Minister Scott Morrison refused to discuss the government's backing of the deal.

Morrison said: "It is a matter between him and his shareholders. They have commercial objectives, which they pursue, and I wouldn't expect them to be doing anything that wasn't in their commercial interests."

Telstra Chairman John Mullen has made clear that such a deal would not have gone ahead if it was not bankrolled by the Australian taxpayer.

Mullen said in July: "It would have come across the desk like so many other things. But would it have been something that would have gone further in discussion with if it wasn't for the government interest? Probably not."

In fact, according to the *Australian Financial Review* (AFR), the Morrison government has been "in ongoing dialogue with US officials," since 2020. This involved concerns Digicel "could be used to spy on neighbouring countries and visiting Australian government ministers, control media communications to disseminate political propaganda for China-friendly Pacific political leaders, and as a patronage vehicle to corrupt the region's political elite."

Talks have reportedly continued under the Biden administration, with some in ruling circles considering the Digicel intervention a test for the US-led Build Back Better World plan, launched at the G7 summit in June to combat China's huge One Belt, One Road infrastructure initiative.

Biden's plan represents a continuation of the trade war instigated by Donald Trump, who, in 2018, imposed steep tariffs on goods imported from China. While this was ostensibly about addressing a trade imbalance between the two countries, the main concern in Washington was China's growth as an economic rival, driven by its rapid industrial and technological development.

The Digicel operation follows previous moves to block Chinese telecommunications investment in the Asia-Pacific and around the world over unsubstantiated claims that such networks would be used for espionage.

In 2018, after the Solomon Islands awarded Huawei a contract to build an undersea cable network, the Australian government stepped in, demanding the Solomons instead sign on to an Australian fibre link. Huawei's plans for an undersea network in Papua New Guinea were quashed by a joint intervention of the US, Japan and Australia the same year.

Also in 2018, Australia, following talks with its "Five

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Eyes" intelligence alliance partners—the US, UK, Canada and New Zealand—banned Huawei and another Chinese company, ZTE, from supplying 5G network equipment. According to US restrictions, companies must obtain a licence to sell any product with a US-made microchip to Huawei.

The talks also resulted in the arrest in Canada of Huawei Deputy Chairperson Meng Wanzhou, who was held in home detention for more than 1,000 days and faced extradition to the US on trumped-up claims that she had violated US sanctions against Iran.

The Digicel Pacific deal will be funded by Export Finance Australia (EFA), previously known as the Export Finance and Insurance Corporation, part of the Department of Foreign Affairs and Trade (DFAT). The Liberal-National government passed new legislation on October 19 to facilitate this financial arrangement, with the full support of the opposition Labor party.

Trade and Investment Minister Dan Tehan said in June that the new laws would give the EFA "broader powers to finance transactions that serve Australia's national interests and priorities."

Speaking in support of the bill, Labor MP Madeline King lamented the lack of progress of the government's "Pacific Step-Up," a program to bolster the position of Australian imperialism in the region.

King said: "Despite the talk about a Pacific step-up and engagement in our region under Prime Minister Scott Morrison, Australia is more dependent than ever on China for our exports and export related jobs, and, in fact, we depend on the Chinese market more than any other country in the world."

In other words, King is attacking the Morrison government from the right for not moving quickly or aggressively enough to wind back ties with Australia's largest trading partner and fall into line with the US-led anti-China offensive.

While the "Pacific Step-Up," first announced in 2016, has been promoted by the federal government as an aid and development package, even a cursory examination of its contents makes the real intentions clear.

Projects funded by the program, including undersea communications cables, power stations, and airport upgrades, have clearly been selected for their strategic significance and to block Chinese investment and influence.

Digicel Pacific, with 1,700 employees and 2.5 million subscribers across the Asia-Pacific, derives most of its revenue from Papua New Guinea. Digicel Pacific's parent company, Digicel, is based in Bermuda and provides phone services across the Caribbean.

In recent years, as mobile phone use shifted from voice calls to internet data, the company faced declining revenues and mounting debt. This process was accelerated by the COVID-19 pandemic, with Digicel particularly exposed because its major markets in the Asia-Pacific and Caribbean regions are heavily dependent on tourism.

Digicel filed for bankruptcy in May 2020 in both Bermuda and the United States as part of an operation to refinance $US7.4 billion in debt.

Around this time, rumours began circulating that China Mobile was interested in acquiring Digicel Pacific. The AFR, citing an anonymous source, claimed on May 14, 2020: "China Mobile had been conducting due diligence on Digicel's Pacific business since the start of this year."

Both Digicel and China Mobile denied a Chinese acquisition was on the cards, but the mere possibility was enough to spark discussion in Canberra and Washington on the geostrategic implications.

Digicel owner, Irish billionaire Denis O'Brien, approached Bondi Partners, founded by former Australian Treasurer and Ambassador to the US, Joe Hockey, for political guidance on the deal. The Australian government subsequently approached Telstra for advice on how to counter the rumoured Chinese offer.

By all accounts, Telstra was not interested in acquiring the company in a "free-market" transaction. However, Canberra's determination to block any Chinese development in the region was enough to warrant not just footing the bill, but drafting new legislation to maximise potential profits and sweeten the deal for Telstra.

The federal government, in taking the unusual step of bankrolling the acquisition of one corporation by another, has demonstrated its close alignment with the US offensive to undermine China economically.

The Digicel Pacific deal has nothing to do with protecting mobile phone users in the Asia-Pacific region from Chinese espionage. Instead, the Australian government has stepped in to prevent Chinese investment, and therefore influence, in key strategic locations as part of wider preparations for a US-led conflict with China.

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