

From: [Willis, Max](#)
To: s 22
Cc: [Brazier, Roderick](#); s 22
Subject: s 47E(d) [SEC=OFFICIAL]
Date: Thursday, 14 January 2021 10:42:18 PM
Attachments: s 47E(d)

s 22, another article on Digicel (s 47E(d)).
Max

Sent from my iPhone

Begin forwarded message:

From: "s 22"
Date: 14 January 2021 at 9:26:11 pm AEDT
To: "Willis, Max"
Subject: s 47E(d)

Max,
For your awareness

s 22

Sent from my iPhone

Begin forwarded message:

s 47C, s 47E(d)

Background

Fairfax papers reported on 14 January, 2021 that the Government is considering using Export Finance Australia to support private buyers to acquire Digicel Pacific (*Australia may finance buyer for Pacific mobile network Digicel to block China* – Sydney Morning Herald, 14/1/21). The report says that China Mobile is the most likely buyer for the company rather than ZTE or Huawei as previously reported in AFR. The article also says O'Brien's reported asking price of US\$2 billion exceeds the US\$1 billion valuation of industry sources. The article quotes Philip Citowicki as saying that 'even false flag interest from China would drive up the cost of any Australian support' and '...countering such strategic moves are a costly but necessary reality for Australia and like-minded allies'.

The Australian Financial Review ran a story on 11 January, 2021 saying that Chinese telecommunication companies are now in the box seat to acquire Digicel Pacific (*Alarm as China circles Pacific telco* – AFR, 11/1/21). Pacific Equity Partners and other private equity companies are said to be 'miles apart' on potential bids for the company. The article quotes unnamed sources as saying that the Pacific Step-up will be seen to be 'asleep at the wheel' if

a Chinese acquisition goes ahead. The article builds on previous reporting from 18 December, 2020.

On 18 December, 2020, the AFR ran a story discussing potential Australian Government involvement in the acquisition of Digicel Pacific (*Government mulls funding telco bid to block China – AFR, 18/12/20*). According to sources the Government has considered ways to purchase the asset including subsidised loans or loan guarantees. It says that officials have also been exploring joining with the United States and Japan to support such a purchase. According to the article two unnamed private equity firms from Australia and the US have been in discussions to potentially launch a bid, but Australian Government financing would be required. The article also quotes a source as saying Chinese entities are ‘making a big play’ for Digicel Pacific and the Government would need to determine how to bridge the difference between the commercial and strategic values.

From: [Willis, Max](#)
To: s 22 ; [Gaetjens, Phil](#)
Cc: [Millar, Caroline](#); [Brazier, Roderick](#); s 22 ; s 22 ; s 22 ; [Arnold, Debbie](#);
s 22 ; s 22 ; s 22 ; [McGregor, Elizabeth](#); s 22
Subject: AFR story on Telstra/Digicel - s 47E(d) [SEC=PROTECTED]
Date: Thursday, 15 July 2021 5:24:51 PM
Attachments: s 47E(d)
[Telstra called in to block Chinese telco bid.pdf](#)

PROTECTED

Secretary, s 22 ,

The AFR (Andrew Tillett) asked s 47F about Digicel at the National Press Club in Melbourne today. Tillett asked whether the Telstra had been approached by the Government about partnering on acquiring Digicel. s 47F said it was not appropriate to comment on what discussions may or may not have taken place with the Government and encouraged the AFR to put any such questions to the Government instead.

AFR has now published – see [attached](#). It says the Government approached Telstra and other businesses to sound them out on buying Digicel with a view to blocking Chinese entities from buying the business.

s 47E(d)

Max

Max Willis | Assistant Secretary
Pacific Branch | International Division
Department of the Prime Minister and Cabinet
p. s 22 | m. s 22



Politics

Federal

China relations

— Exclusive

Telstra called in to block Chinese telco bid

John Kehoe, Andrew Tillett, Lucas Baird and Ronald Mizen

Jul 15, 2021 – 4.02pm



The federal government has approached Telstra and other commercial businesses to sound out their interest on potentially taking an ownership stake in the Pacific operations of a telecommunications business, to block China from buying the assets.

The national security committee of the Morrison cabinet has been considering the implications of Digicel, including its Papua New Guinea assets, [potentially being sold to a Chinese entity](#).



Digicel has telco assets in the Pacific and Caribbean. Getty

It has considered injecting taxpayer financing for a private-sector led bid, sources said.

National security officials in Canberra are concerned Digicel's mobile phone networks could be used to spy on Australia's closest geographical neighbours, access sensitive data and disrupt activity in countries including PNG, Fiji, Tonga, Vanuatu and Samoa.

Another concern is [Digicel being used as a cash cow vehicle for patronage and corruption among PNG's political elites](#), as other Chinese state-owned enterprises have done in PNG.

RELATED QUOTES



Digicel has a relatively old 3G mobile phone network and access to undersea cables in the region.

Telstra chief executive Andy Penn was asked by *The Australian Financial Review* on

Thursday if Telstra had spoken to the government about fulfilling a “patriotic duty”

to be part of a bid as a joint venture partner or operator to stop Digicel falling into Chinese ownership.

“I think that is really a question you should direct at the government,” Mr Penn said at the national press club in Melbourne.

“I think, given the comments you’ve made behind the question, it wouldn’t be appropriate for us to comment on any discussion we may or may not have had with the government.”

A Telstra spokesman declined to comment further.

A spokesman for the Department of Foreign Affairs and Trade said partnering on infrastructure development is a key part of the government’s “Pacific Stepup”.

“Where appropriate, the Australian government supports Australian businesses investing in infrastructure in the Pacific, including communications infrastructure, which plays a key role in economies across the region.”

“We do not comment on individual proposals.”

Sources said the government had approached a range of private companies and investors about potential involvement, including Telstra.

There is no suggestion Telstra has active interest in acquiring the Digicel assets in the developing countries, but the government’s sounding out of possible private sector partners underlines its national security and geopolitical interest in Digicel.

Australian private equity firm Pacific Equity Partners held discussions with Digicel’s representatives last year, but the parties were a long way apart on a potential sale price.

PNG's National Executive Council has considered if its government-owned Telikom PNG or PNG DataCo could be part of a consortium to buy the Digicel assets, according to a PNG source.

Digicel's major shareholder is Irish billionaire Denis O'Brien.



Digicel's owner Denis O'Brien is an experienced negotiator. **Bloomberg**

Some observers believe Mr O'Brien, a canny global businessman, has an incentive to exaggerate China's interest to maximise competitive bidding tension and to

increase the price of the assets.

Digicel's business has been financially challenged by a lack of foreign tourists travelling to the Pacific during COVID-19, which has undermined its high-margin international roaming services.

Returns are much more modest from local villagers recharging their mobile phones, especially when the economy is struggling and locals don't have much money.

The current [political tension between Australia and China](#) is viewed by close observers as a prime opportunity to extract a higher government-subsidised bid to protect Digicel from its agitated bondholders.

Moreover, Chinese telco Huawei has already built the backbone of PNG's broadband system so the system is potentially already compromised.



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Morrison government ministers and national security officials have discussed options to possibly provide financial backing to private bidders from friendly nations.

Potential assistance options include subsidised loans, loan guarantees, underwriting currency risk or becoming a joint venture equity partner.

The Australia, US and Japan trilateral partnership for infrastructure investment in the Indo-Pacific, announced in 2018, is being touted as a potential vehicle to help facilitate a joint public-private investment.

The federal government's export credit agency, Export Finance Australia, can provide loans and guarantees to Australian businesses for overseas infrastructure projects, including telecommunications energy, electrification, water and sanitation, and transportation.

The agency had its mandate expanded in 2019 to "finance infrastructure projects in the Pacific and broader Indo-Pacific region that result in positive outcomes for Australia and the region, both now and in the future."

The Morrison government has a \$2 billion Australian Infrastructure Financing Facility related to its "Pacific Step-up" plan, to boost support for infrastructure development in Pacific countries – partly aimed at countering China's creeping influence in the region.

The Coalition government was already forced to spend almost \$100 million to fund two-thirds of a 4700-kilometre undersea cable from Australia to Papua New Guinea and the Solomon Islands, to stop Chinese telco Huawei gaining a foothold in the Pacific and potentially spying on the region.

Australia is also partnering with Japan and the US to finance about \$US30 million for an undersea fibre optic cable to the Republic of Palau, an archipelago of over 500 islands in the Micronesia region in the western Pacific Ocean.

Mr O'Brien visited PNG last week.

Australia's Minister for International Development and the Pacific, Zed Seselja, was also in the country at the same time.

Mr Seselja's spokeswoman said no meeting took place.

s 47G, s 47C, s 47E(d)





19 July 2021

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Media speculation on Digicel Pacific

In accordance with the Listing Rules, I attach a market release for release to the market.

Authorised for lodgement by:

A handwritten signature in black ink, appearing to read 'Sue Laver'.

Sue Laver
Company Secretary



Media speculation on Digicel Pacific

Monday 19 July 2021 - In response to a story in The Age/Sydney Morning Herald (17 July 2021) Telstra has confirmed it has been in discussions regarding a potential transaction to acquire telecommunications company, Digicel Pacific in the South Pacific region in partnership with the Australian Government.

The discussions are incomplete and there is no certainty that a transaction will proceed.

Telstra was initially approached by the Australian Government to provide technical advice in relation to Digicel Pacific which is a commercially attractive asset and critical to telecommunications in the region. If Telstra were to proceed with a transaction it would be with financial and strategic risk management support from the Government.

In addition to a significant Government funding and support package any investment would also have to be within certain financial parameters with Telstra's equity investment being the minor portion of the overall transaction.

Digicel Pacific was founded in 2006 by Denis O'Brien, an Irish entrepreneur, and is a leading provider of communications services across Papua New Guinea, Fiji, Nauru, Samoa, Tonga and Vanuatu.

Digicel Pacific enjoys a strong market position in the South Pacific region generating EBITDA of \$US235 million in calendar 2020 with a strong margin, as well as extensive network coverage.

Telstra will keep the market updated as appropriate.

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