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Dangerous liaisons

A sea of flag-waving school children greeted Russian President Vladimir Putin at Jakarta's airport on September 6 on his first visit to Indonesia. Among the Russian dignitaries treated to this display of national goodwill were several businessmen whose presence may yet prove to be highly significant for Indonesia.

The businessmen are high-ranking officials from one of Russia's top conglomerates, the Alfa Group. If mounting suspicions about the purpose of their visit prove correct, they will become bit players in a saga with all the ingredients of a good political thriller.

Official sources say the executives from Alfa's telecommunications wing, Altimo, are in town to consider an investment in Indonesia's multi-billion dollar telecom sector. However, according to a leaked document currently circulating among Jakarta's political elite, this is no ordinary transaction. It will depend on backroom political deals at the highest level, a forced takeover of legally bought shares, and the reputation of a quasi-governmental watchdog that has been painstakingly built over the past seven years.

The VP factor

Back in 2003 a cash-strapped Indonesian government sold almost 42 percent of its shares in the telephone operator Indosat to a chorus of domestic criticism. The buyer, Singapore Technologies Telemedia (STT), was considered by some politicians here to have gained a valuable asset at a bargain price.

Calls for the return of Indosat to public ownership intensified throughout 2004 and 2005, as the telcom suffered financial losses and concerns about national security implications were voiced. Several nationalist politicians filed a series of lawsuits against the government over the sale and in late 2005 then minister of state-owned enterprises Sugiharto formally asked STT to sell its shares back to the government.

But the Singaporean company wasn't interested and the legal action came to an end at the close of 2006 when the final suit was rejected by the Supreme Court. It was then, according to a document obtained by the *Report*, that those intent on the government's buyback of Indosat turned their attentions to a higher power: Vice President Jusuf Kalla.

This unsubstantiated dossier details a plan hatched between Russian firm Altimo, Sugiharto and Kalla to force the sale of STT's Indosat shares. In return, Altimo would loan funds to the government for a share buyback and expect 27 percent of Indosat immediately after the sale, with a further 15 percent at a later date. For their efforts in the backroom deals, those behind the sale could expect to share a cool US\$40 million.

KPPU Investigates

According to this scenario, the government's strongest bargaining chip for forcing STT out of Indosat is an investigation by the Anti-Monopoly Commission (KPPU).

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It is a matter of public record that the KPPU has been investigating the Singaporean company for alleged monopolistic practices in the Indonesian telecom sector since March this year.

With the results of the KPPU investigation not due until the end of this month, there is growing concern that Putin's visit could tip the balance in Altimo's favour. The fear is that political influence at the highest level will push the KPPU to go against STT, obliging the company to sell its Indosat shares.

The KPPU case centres around STT's shares in both Indosat and Telkomsel, which together control some 90 percent of the cellular phone market in Indonesia.

Pande Radja Silalahi is a former member of the KPPU who has intimate knowledge of the case. In his opinion the allegations that STT has a monopoly in the Indonesian telecom market and is engaged in price-fixing are clearly false.

"STT holds shares in Telkomsel and Indosat indirectly. The ownership structure is complicated, but if you study it you can see that STT does not control more than 50 percent of the market. It has only 30.6 percent Indosat's shares and 18.9 percent of Telkomsel," he told the *Report*.

A widely quoted University of Indonesia study that found indications of price fixing between Indosat and Telkomsel is misleading, according to Pande. "The study is misunderstood, it does not conclude that price-fixing has taken place," he said. "Yes, there are similarities in the trends of prices from the two companies, but one of the reasons for this is the upper and lower limits on prices set by the government."

Nevertheless after a preliminary investigation into the issue, the KPPU announced in May this year that the Singaporean company "might have broken the law," before saying that more time was needed to study the case in full.

Political observers note that the KPPU is at a difficult juncture in its development and could be vulnerable to political influence. Last year, the commissioners who manage the body were changed for the first time since it was formed in 2000 and in some ways this is a test case for them.

The wild east

While there are some circumstantial grounds for concern about the KPPU's lack of bias, there are much stronger reasons for suspecting Altimo's intentions.

The Russian company has left a wake of controversy in almost every investment it has made. In Norway, Altimo is locked in a dispute with its former partner, Norwegian state-owned telecom company Telenor over a business venture in the Ukraine. Telenor is currently awaiting the resolution of a lawsuit it filed against Altimo, which claims that the company funded a media smear campaign against Telenor in an effort to take full control of the venture.

In Turkey, Altimo is also in a dispute with Swedish company TeliaSonera over

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control of the country's biggest mobile phone operator, Turkcell. TeliaSonera is suing Altimo and another company for allegedly blocking its rights to a majority stake in Turkcell.

Another legal battle is unfolding on Altimo's home turf, with an international investment fund, IPOC, claiming that Altimo illegally acquired a stake in a major Russian mobile phone operator, Megafon.

In Indonesia, there have also been indications that Altimo is employing questionable tactics to enter the telecom market. Earlier this year allegations that Altimo was conducting a smear campaign against Singapore's STT came to light (see *Report*, Vol. IX, no.9). Most recently demonstrations were held outside the KPPU's office at the end of June by the "Forum for Indonesian-Russian Friendship" urging the KPPU to find STT guilty of monopolistic practices and give Altimo preference for buying STT's Indosat shares.

The vice president of Altimo, Kiriil Babaev, meanwhile, has publicly denied the company had any links to the Friendship Forum.

Partners in crime?

In the event that Putin does pressure Jakarta on behalf of Altimo, how are officials here likely to react?

So far, there are strong indications that the government will not play ball. At the end of May, Minister for State-Owned Enterprises Sofyan Djalil stated that "the government has no interest in buying back [Indosat's stake]. Neither does it want to ride piggy-back on another party which has interest."

Although there have been recent calls from several members of the DPR for the government to buy back Indosat's shares, other more senior legislators have voiced their opposition to the plan.

Theo Sambuaga, who chairs DPR's Commission I on defense, foreign affairs and information, told the press in July that "a share buyback by the government could potentially hinder fresh investment into the telecommunications industry," adding that the commission had made such a recommendation in a parliamentary hearing to the minister of information.

As for the document containing Altimo's masterplan to take over Indosat, there are three possible scenarios. Either it is completely fabricated; it is a leftover plan from Sugiharto's time as minister, which has since lost traction; or it remains an active plan. Only time will tell which of these three scenarios is the truth.

Making hard work out of contracts

The government's stated plan to re-evaluate working contracts with large foreign companies has two mining giants in its sights. But is this a serious undertaking, or just politicians playing to the nationalist benches?

Vice President Jusuf Kalla is known for his ability to cause a stir, and create