The Australian government has agreed to return legal documents and data seized by ASIO to the East Timorese government. It is the latest twist in a row over espionage and a treaty dividing $40 billion in oil and gas revenues in the Timor Sea.

ASIO – under the direction of former boss David Irvine and with the approval of attorney general George Brandis – raided the Canberra office of East Timor's lawyer Bernard Collaery and home of a former member of Australia's foreign espionage service in December 2013. It followed revelations the Australian Secret Intelligence Service (ASIS) had bugged East Timor's government offices during negotiations over the oil and gas treaty in 2004. Mr Irvine was head of ASIS at the time.

The ASIS spying, which Australia confirmed during subsequent legal hearings, underpinned East Timor's bid in arbitration in the Hague to get the oil and gas treaty declared null and void and begin new negotiations on the maritime boundaries between the two countries.

The ASIO raids took place as the arbitration was commencing.

Following the raids, an irate East Timor took legal action in the International Court of Justice seeking the return of the documents, among other remedies. It accused Australia of an egregious breach of sovereignty and an act of espionage to gain access to the privileged information of an opponent in an ongoing legal action.

In a preliminary ruling, the ICJ took the extraordinary step of requiring Australia to cease spying on East Timor in relation to the oil and gas talks. It accused Australia of an egregious breach of sovereignty and an act of espionage to gain access to the privileged information of an opponent in an ongoing legal action.

However, shortly after, the proceedings in the ICJ and the separate Hague arbitration were suspended at the behest of Australia, with the two parties entering private negotiations to settle the dispute.

Many issues remain outstanding but, in a statement released overnight, East Timor said it "appreciated" a decision to return the documents and data seized in the ASIO raids.

"After 16 months of vigorously defending it's [sic] right to take and keep the documents, the Australian Government has now written to the International Court of Justice [ICJ] stating that it wishes to return them," East Timor's spokesman, Agio Pereira said.

"On the 22nd of April the Court responded to the Australian letter authorising the return of the documents, still sealed, under the supervision of a representative of Timor Leste."

The statement said East Timor "is now reserving its rights", suggesting the more substantive dispute over whether the Certain Maritime Arrangements in the Timor Sea (CMATS) Treaty over the oil and gas reserves in the Timor Sea is valid or not remains ongoing.

Mr Pereira, East Timor's minister of state, applauded Australia's change of position, but explained "there had been little progress towards a schedule of structured negotiations on the delimitation of permanent maritime boundaries in the Timor Sea."

"A schedule for bilateral talks on maritime boundaries between the two countries remains undefined," he said, adding the country's new prime minister Rui Araujo was keen to renegotiate a new maritime border.

The border, originally negotiated by Australia and Indonesia, the former occupier of East Timor, placed the largest share of oil and gas in the Timor Sea within Australia's territorial waters.

However, a border equidistant between the two nations would give most of the lucrative oil and gas reserves to East Timor.

The major known deposit in the Timor Sea, the Greater Sunrise concession, is worth as much as $40 billion and remains undeveloped.