Australian prosecutors have charged a former intelligence officer and his lawyer with breaching state security laws for revealing that Canberra bugged East Timor’s cabinet office during talks on an oil and gas treaty worth up to $40bn, raising concerns over the country’s treatment of whistleblowers.

The charges, which were revealed by an MP using parliamentary privilege on Thursday, follow the end of a decade-long dispute between East Timor and Australia over a maritime border dispute linked to the agreement.

The case has prompted concerns among civil rights advocates in Australia, which has no bill of rights and has recently passed punitive legislation aimed at tackling terrorism, espionage and foreign influence.

Andrew Wilkie, the independent MP who revealed the secret charges against the former spy and his lawyer Bernard Collaery, said they were an “insane development” and the government wanted to turn them into “political prisoners”.

“That’s what happens in a pre-police state, where instead of a royal commission they lock up people who more likely deserve the Order of Australia,” said Mr Wilkie, referring to the country’s national honour.

The former spy, who is known only as Witness K, provided evidence of the Australian spying operation in 2004, which allegedly involved bugging the cabinet office in the East Timor capital of Dili by inserting listening devices in the walls during a renovation linked to an Australian aid programme.

The revelation sparked a legal battle between Australia and its impoverished neighbour, which is officially known as Timor-Leste, over both countries’ maritime border and the associated oil and gas treaty.

Dili argued a 2006 maritime deal with Canberra did not give it a fair share of the Greater Sunrise oil and gasfields in the Timor Sea. A joint venture led by the Australian energy group Woodside holds commercial rights over the Greater Sunrise project, which is estimated to have oil and gas reserves worth up to $40bn.

The evidence provided by Witness K enabled Dili to initiate a case at the Permanent Court of Arbitration in The Hague, where it sought annulment of the bilateral treaty. But shortly before the first scheduled meeting of the arbitration panel, agents from ASIO, Australia’s intelligence agency, raided the home of Witness K and confiscated his passport, preventing him from giving evidence in the case. The offices of Mr Collaery were also raided.

Dili subsequently took Australia to the International Court of Justice in The Hague, where it alleged Canberra obtained unfair advantage in the negotiations on the maritime deal. This 2014 case focused attention on alleged connections between national spy agencies and commercial interests in the wake of separate disclosures by US whistleblower Edward Snowden, a former US National Security Agency contractor.

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East Timor subsequently dropped its case at the ICJ shortly before it signed a treaty in March, which redrew the controversial maritime boundary linked to the Greater Sunrise gasfield.

Australia’s prosecutor confirmed that the two individuals had been charged with conspiracy to communicate intelligence service information — a crime that carries a maximum penalty of two years in prison.

Terry O’Gorman, president of the Australian Council for Civil Liberties, said: “It is a real worry that we only learnt of this prosecution from an MP using parliamentary privilege. It also highlights the lack of safeguards for whistleblowers.”