

The Timor Gap, 1972-2002

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The Timor Sea Treaty between Australia and East Timor was signed in Dili on 20 May 2002, the first day of East Timor's existence as an internationally recognized independent state. The treaty was signed for Australia by Prime Minister John Howard, and for East Timor by Prime Minister Mari Alkatiri. The treaty created a Joint Petroleum Development Area (JPDA) of 75,000 sq km in the Timor Sea, with 90 per cent of revenue from production within the area going to East Timor and 10 per cent to Australia. The JPDA covered 100 per cent of a \$US1.6 billion project being developed at the Bayu-Undan oil and gas fields by Phillips Petroleum and about 20 per cent of the ten trillion cubic feet Sunrise and Troubadour reservoirs.¹ An annex to the treaty awarded 18 per cent of revenues from the Greater Sunrise field, a deposit that straddles the eastern corner of the joint area, to East Timor. The Timor Sea Treaty will remain in force until there is a permanent seabed delimitation between Australia and East Timor, or for thirty years from the date of its entry into force, whichever is the sooner (article 22).

The Timor Sea Treaty replaced the Timor Gap (Zone of Cooperation) Treaty between Australia and Indonesia, which lapsed when East Timor ceased to be a province of Indonesia following a United Nations supervised act of self-determination on 30 August 1999. The Joint Petroleum Development Area created by the Timor Sea Treaty covers Zone of Cooperation Area A established by the Timor Gap Treaty. The Timor Gap Treaty was described as a unique arrangement for enabling petroleum exploration and exploitation in offshore areas subject to competing claims by two countries, and for the sharing of the benefits between those countries.² It was signed in December 1989 to deal provisionally with the gap in the seabed area not covered by the 1972 Seabed Agreement between Australia and Indonesia, the seabed area between Australia and East Timor. When the 1972 Seabed Agreement was negotiated, a 'gap' was left between the eastern and western parts of the Australia-Indonesia seabed boundary in the area to the south of Portuguese Timor: the 'Timor Gap'.

The Creation of the Timor Gap

The necessity for seeking agreement with Australia's neighbours on national seabed boundaries emerged as exploration began to reveal the existence of exploitable deposits of gas and petroleum on the seabed contiguous to the Australian continent. A consortium consisting of Arco Australia Ltd, Australian Aquitaine Pty. Ltd. and Esso Australia Ltd. had begun geophysical exploration in the Timor Sea and Bonaparte Gulf in 1962.³ A second consortium comprising Woodside Petroleum, Burmah Oil Company and the Anglo-Dutch Shell Oil Company conducted an aeromagnetic survey in 1963, followed by seismic surveys in each of the years 1964-1968.⁴ The extensive exploration efforts undertaken by both consortiums in the Timor

1 Nigel Wilson, 'East Timor to extend sea oilfield', *The Australian*, 18 June 2002.

2 Mr Payne. *Senate Foreign Affairs, Defence and Trade References Committee Hansard* (hereafter *Committee Hansard*), 11 November 1999, p.873.

3 R. Laws and C. Kraus, 'The Regional Geology of the Bonaparte Gulf-Timor Sea Area', *APEA (Australian Petroleum Exploration) Journal*, 1974, p.77.

4 R. Mollan *et al.*, 'Geological Framework of the Continental Shelf of North West Australia', *APEA Journal*, 1969, p.49.

Sea/Bonaparte Gulf/Browse Basin area from 1962 had by 1970 revealed the region to be petroliferous, and specifically, 'certain parts of the Bonaparte Gulf-Timor Sea area prospective in the search for viable oil and gas reserves'.⁵ Delimitation of respective national claims to the seabed was necessary for exploitation of these reserves to proceed.

Sea-bed negotiations with Indonesia commenced in March 1970, following informal discussions between Australian and Indonesian delegates to the fourth ECAFE (Economic Commission of Asia and the Far East) symposium on the development of regional petroleum resources held in Canberra in November 1969.⁶ The Australian government had developed its position on maritime boundaries since 1953 when it laid formal claim to its continental shelf.⁷ Australia developed two interpretations of the 1958 Geneva Convention on the Law of the Sea. Article 6.1 of the Convention stated, regarding delimitation of international boundaries:

Where the same continental shelf is adjacent to the territories of two or more States whose coasts are opposite each other, the boundary of the continental shelf appertaining to such States shall be determined by agreement between them. In absence of agreement, and unless another boundary line is justified by special circumstances, the boundary line is the median line, every point of which is equidistant from the nearest points of the baselines from which the breadth of the territorial sea of each state is measured.

The first interpretation by Australia concerned that area of the Arafura Sea, east of longitude 133°14' East, where petroleum exploration permits were granted as far north as the line of equidistance between Australia and West Irian and the Aru Islands. According to the Australian interpretation, the shelf in this area was judged to be common to both Australia and Indonesia.⁸ This interpretation provided for the drawing, with relative ease, of an equitable boundary on the equidistance principle.⁹

The second Australian interpretation concerned the area west of that longitude, where permits were granted for areas as far north as the Timor Trough.¹⁰ In a definitive statement in the House of Representatives on 30 October 1970, Minister for External Affairs William McMahon described the Timor Trough as a 'huge steep cleft or declivity, extending in an east-west direction, considerably near[er] to the coast of Timor than to the northern coast of Australia. It is more than 550 nautical miles long and on the average 40 miles wide, and the sea-bed slopes down on opposite sides to a

5 R. Laws and C. Kraus, 'The Regional Geology of the Bonaparte Gulf-Timor Sea Area', *APEA Journal*, 1974, p.77; Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.60.

6 R. Sorby, 'Indo-Aust. Talks on who owns Off-shore Oil', *The Australian Financial Review*, 4 November 1969; Reply by External Affairs Minister William McMahon to Question Upon Notice, *House of Representatives Debates*, Vol. 71, 1971, p. 546.

7 J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, No.82, 1972.

8 J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, No.82, 1972.

9 M.F. Glaessner, 'Legal, Logical and Geological Boundaries of the Australian Continent', *APEA Journal*, 1971, p.34.

10 J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, No.82, 1972.

depth of over 10,000 feet'.¹¹ The significance of the Timor Trough to this second interpretation lay in the development of what McMahon called an 'unmistakably morphological' basis for the Australian claim to this area:

The Timor Trough thus breaks the continental shelf between Australia and Timor, so that there are two distinct shelves, separating the two opposite coasts.¹²

For the Australian government, therefore, the Timor Trough separated two distinct continental shelves: a narrow shelf extending from Timor, and a wide shelf extending from the Australian coastline to the base of the Timor Trough. Since the 1958 Geneva Convention did not explicitly address a situation where there were two continental shelves, the Australian government deemed the 'special circumstances' of Article 6.1 of the Convention to apply, while as McMahon explained, 'the fall-back median between the 2 coasts provided for in the absence of agreement, would not apply for there is no common area to delimit'.¹³ This view had become encapsulated in the drawing of the Mackay Line. The Mackay Line, or Green Line, was drawn by and named after an official of the Department of National Development. It followed the foot of Australia's continental slope, and while its precise location was according to journalist Peter Hastings, 'hard to pinpoint, it is known to follow the Timor Trough between 11 degrees South and eight degrees South'.¹⁴

Australia's sense of urgency with regard to settling a seabed boundary was heightened by the presumption of vast hydrocarbon reserves in the Timor Sea, the only area in which Australia faced direct competition to its continental shelf claims. Since the precise location and extent of these reserves was unknown, and those international laws applicable were in no sense definitive, it pursued a claim consistent with securing as much of the Timor Sea seabed as was possible. It appears that in order to secure a favourable settlement of the entire boundary in the Timor Sea, the Australian government first sought to negotiate a favourable settlement with the Indonesian government. Having achieved such a settlement (which implicitly recognized the legitimacy of Australia's perspective of the sea-floor), the Australian government could then present Portugal with a *fait accompli* in terms of the relevant applicable customary international law.¹⁵

External Affairs Minister McMahon explained to Parliament on 30 October 1970 that the Australian view 'is, of course well known to Indonesia, [there having] been a recent exchange of views, still incomplete, between Indonesian and Australian officials'.¹⁶ From these preparatory discussions, it became clear that Indonesia did not share the Australian view, counter-arguing that the Timor Trough was merely 'an

11 Minister for External Affairs William McMahon, *House of Representatives Hansard*, Vo1.70, 30 October 1970, p.3108.

12 Minister for External Affairs William McMahon, *House of Representatives Hansard*, Vo1.70, 30 October 1970, p.3108.

13 Minister for External Affairs William McMahon, *House of Representatives Hansard*, Vo1.70, 30 October 1970, p.3108.

14 Peter Hastings, 'Whose Riches Under The Sea?', *The Sydney Morning Herald*, 3 June 1972; J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, No.82, 1972.

15 Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, p.69.

16 Minister for External Affairs William McMahon, *House of Representatives Hansard*, Vo1.70, 30 October 1970, pp.3107-3109.

incidental depression in the sea-floor, not the definitive edge of two shelves'.¹⁷ The *Australian Financial Review* of 16 October 1970 reported: 'Indonesia has already prepared maps showing the boundary of its own 'continental shelf' as the median line between Australia and Timor'.¹⁸

The sea-bed boundary in the Arafura and eastern part of the Timor Seas proved comparatively easy to negotiate. The agreement signed on 18 May 1971 defined the boundary for 520 nautical miles from the southern terminus of the land boundary between Indonesia and Papua New Guinea as far as meridian 133° 23' East, and was fixed by reference to 13 defined points.¹⁹ This agreement, reached after some fifteen months of negotiations, could only be concluded at this time by distinguishing the basis on which agreement had been reached from that applying to the remainder of the boundary, *i.e.* this boundary approximated the line of equidistance for most of its length.²⁰

During the visit of Indonesia's President Soeharto to Australia in February 1972, it was agreed with McMahon (now Prime Minister) 'that all outstanding issues [relating to the sea-bed boundary] should be negotiated at an early date'.²¹ The *Canberra Times* reported on 2 May 1972 that the line Australia's negotiators would take was 'likely to involve an attempt at compromise, possibly by drawing a line half-way between where Australia believes the boundary should be, and where the Indonesians would choose to draw it'.²² After a preliminary conference in September, delegates attended formal negotiations in Jakarta between 2 and 7 October which culminated in the signing of an Agreement on 9 October 1972.²³ The agreement embodied the compromise suggested by Australia, with the boundary being fixed 'roughly one third of the way down the southern side of the Trough', between the Mackay Line and the median line, but closer to the former.²⁴

17 Peter Hastings, 'Whose Riches Under The Sea?', *The Sydney Morning Herald*, 3 June 1972; J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, No.82, 1972; cited in Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, p.70.

18 Peter Robinson, 'Aust's "expanding rim" offshore minerals doctrine in question', *Australian Financial Review*, 16 October 1970.

19 J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, No.82, 1972; 'Signing of the Sea Bed Agreement with Indonesia', *Current Notes on International Affairs*, Vol.42, No.5, 1971, p.283.

20 'Signing of the Sea Bed Agreement with Indonesia', *Current Notes on International Affairs*, Vol.42, No.5, 1971, p.283.

21 W. McMahon, reply to question, *House of Representatives Hansard*, Vol.78, 1972, pp. 3314-3315; cited in Andrew Mills, *Australian-Indonesian Relations A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.78.

22 Bruce Juddery, 'Jakarta talks on sea boundaries', *The Canberra Times*, 2 May 1972.

23 'Seabed pact: oil areas lost', *The Age*, 10 October 1972; 'The Australian-Indonesian Seabed Agreement', *Current Notes on International Affairs*, Vol.43, No.10, 1972, p.509; and Andrew Mills, *Australian-Indonesian Relations A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.78.

24 C. Cook, 'The Australia-Indonesia Maritime Boundary', unpublished Master of International Law sub-thesis, ANU, Sept. 1984, p.32; Andrew Mills, *Australian-Indonesian Relations A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.78.

Article 7 of the agreement provided for a situation arising where a 'single accumulation of liquid hydrocarbons or natural gas, or any other mineral deposit , extends across any of the [border] lines'. In such a case, the two governments were to consult, and seek 'to reach agreement on the manner in which the accumulation or deposit shall be most effectively exploited and in the equitable sharing of the benefits arising from such exploitation'.²⁵ This article provided a basis for establishing a joint development zone under the 1989 Timor Gap Treaty.

Article 3 of the agreement dealt with the potential need for adjustments to be made, by consultation, to those portions of the boundary lines between points A15 and A16 and between points A17 and A18, should this become necessary in the event of a delimitation of that gap in the boundary created by the Agreement (the 'Timor Gap'). This was an unspoken reference to Portugal as a party to such a future settlement. Points A16 and A17 (at 9°28' South and 127°56' East, and 10°28' South and 126° East) were putatively the junction points of Australian-Indonesian-Portuguese Timor boundaries, but in the absence of tripartite negotiations they had not been agreed to by Portugal. They were the points of intersection of the compromise line agreed by Australia and Indonesia with lines following the shortest distance between the eastern and western points of Portuguese territory on the island of Timor and the nearest points on the opposite Australian coast. Alternative points of intersection along lines drawn at right angles to the coasts were farther apart, and these points would have left a wider gap: as such, the narrower gap left by the agreement represented an encroachment by Australia and Indonesia on the area that could be claimed by Portugal.

Why Indonesia agreed

In 1977 the Indonesian Foreign Minister, Dr. Mochtar Kusumaatmadja, a law of the sea expert who had played a prominent part in the 1971 and 1972 negotiations, claimed that Australia had 'taken Indonesia to the cleaners' in these negotiations.²⁶ Given that 'both parties welcomed the agreement as a tribute to the spirit of reasonableness and good neighbourliness which had marked the negotiations',²⁷ there are two areas in which Indonesia could have regarded itself as having been 'taken to the cleaners' in the 1972 negotiations. The first concerned the relevance to the negotiations of plate tectonics theory, or at least the distinction between a single and separate continental shelves. In this regard, 'the Indonesian position has always been [based] on morphological evidence that the shared Continental Shelf ...extends north of Timor'.²⁸ Yet, according to Dr. Mochtar, 'The Australians were able to talk us into [accepting] that the Timor Trench constituted a natural boundary between the two

25 'The Australian-Indonesian Seabed Agreement', *Current Notes on International Affairs*, Vo1.43, No.10, 1972, p.509.

26 Richard Woolcott, 'Fixed Relations', *The Australian*, 15-16 March 1997. Dr. Mochtar expressed this view again in 1978: Michael Richardson, 'Jakarta's Tough Sea Boundary Claim', *The Australian Financial Review*, 20 December 1978; 'Boundary threat to seabed leases', *The Sydney Morning Herald*, 21 December 1978; and Peter Hastings, 'Re-arranging The Sea Bed A Task For Diplomacy', *Sydney Morning Herald*, 22 December 1978; see also 'Visit of Indonesian Foreign Minister', *Australian Foreign Affairs Record [AFAR]*, December 1978, p. 591.

27 'The Australian-Indonesian Seabed Agreement', *Current Notes on International Affairs*, Vo1.43, No.10, 1972, p.510.

28 P. Hastings, 'Re-arranging The Sea Bed A Task For Diplomacy', *Sydney Morning Herald*, 22 December 1978.

shelves, which is not true'.²⁹ He could have drawn support for his view from a definition of the Timor Trough given in a paper published in the *APEA Journal* for 1974, which stated:

The Timor Trough is a modern bathymetric trench in which water depths exceed 10,000 ft (3000m)The formation of the trough is probably due to isostatic adjustment following the collision in the Early Miocene of the Australian and Asian Plates in the region immediately north of the island of Timor.³⁰

If the plates collided *north* of Timor then the Trough/Trench was indeed merely 'an incidental depression in the sea-floor, not the definitive edge of two shelves'.³¹

Had they so wished, the Indonesians could have pursued avenues other than that chosen to place greater pressure on Australia to reduce or alter its claim. These included waiting, like Portugal, for the forthcoming United Nations Conference on the Law of the Sea (UNCLOS) to determine appropriate guidelines; international arbitration; or waiting for scientific confirmation of its claim. All of these options would probably have involved a period of several years waiting, and the implementation of such action could hardly be interpreted as 'good neighbourly' behaviour in circumstances where the Soeharto Government felt under a compulsion to reciprocate Australian gestures of goodwill. The 1972 Agreement reflected the prevailing pressures to add substance to bilateral relations.³² Both Prime Minister McMahon and President Soeharto had at their meeting in Canberra in February 1972 'expressed the belief that the relationship... was moving into a phase where it was possible to put more substance and content into that relationship'.³³

Australian gestures in this regard included its involvement since 1966 in the Inter-Government Group on Indonesia (IGGI), the proportional increase in the amount of foreign aid directed to Indonesia from 1966, the commencement of a formal Defence Co-operation Program in June 1972 (the Program provided \$20m for the period July 1972 to June 1975, including the transfer of Sabre jets [\$6.1m] and mapping in Indonesia [\$2m]), and preparations for Indonesia to become a 'most favoured nation' under the terms of a trade treaty. In addition, business links had become increasingly strong since 1966, although by 1972, these had not resulted in the creation of any significant bilateral economic ties. As noted by Andrew Mills, this factor by itself is indicative of Indonesia's position of deficit in the development of bilateral relations, in that economic co-operation was very much 'one way traffic' to Indonesia, in the form of Australian investment and a trade imbalance in favour of Australia.

29 Dr. Mochtar, in Michael Richardson, 'Jakarta's Tough Sea Boundary Claim', *The Australian Financial Review*, 20 December 1978, and Michael Richardson, 'Tying up Timor's loose ends', *Far Eastern Economic Review*, 5 January 1979, p.45.

30 R. Laws and C. Kraus, 'The Regional Geology of the Bonaparte Gulf-Timor Sea Area', *APEA Journal*, 1974, p.80.

31 Peter Hastings, 'Whose Riches Under The Sea?', *The Sydney Morning Herald*, 3 June 1972.

32 Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.86.

33 'The Australian-Indonesian Seabed Agreement', *Current Notes on International Affairs*, Vol.43, No.10, 1972, p.510.

While this was of comparatively little significance in relation to Australian civilian and military aid, as well as Australian diplomatic initiatives, together these factors pointed to a situation in which Australia was providing greater input into the substance of bilateral relations than was Indonesia. This was symptomatic of the asymmetry already implicit in bilateral relations at this time but, for diplomatic reasons if for no other, Indonesia needed to demonstrate its commitment to them. Agreement to the compromise suggested by Australia at the seabed negotiations offered Indonesia the opportunity to make a pragmatic reciprocatory gesture for accumulated Australian 'goodwill'. That reciprocation should occur in the seabed negotiations is demonstration of the limited options available to Indonesia in its choice of mechanisms to substantiate its claim of fostering better bilateral relations.³⁴

While this in large part explains Indonesia's being in as much a 'hurry' as Australia to reach an agreement, it does not explain Dr. Mochtar's second claim concerning the 'fairness', or otherwise of the actual Agreement. This may be explained by the extent of Indonesia's knowledge of the region's hydrocarbon potential at the time of the negotiations. There is some doubt as to whether or not Indonesia knew of those prospective areas in the vicinity of the median line, and between it and the Timor Trough, which on the basis of extrapolation from seismic data Australia presumed to exist. No exploration had been carried out in the Timor Sea by Indonesian concessionaries. The wells discovered to 1972 were all on the Australian side of the median line. If the Indonesian negotiators were fully cognizant of these details, then it would appear that Indonesia's agreement to the Australian compromise was an act of even greater largesse.³⁵ Mochtar's complaint could also have been a reference to Australian knowledge of the Indonesian negotiating position, illicitly obtained.³⁶

Negotiations to close the Timor Gap, 1970-1974

Whilst seabed boundary delimitation negotiations with Indonesia proceeded toward settlement with comparative ease, the closure of the 'Timor Gap' remained as a task for the Whitlam Government elected in December 1972. In preliminary talks between Australia and Portugal on a seabed boundary from 1971, the Portuguese insisted that the seabed should be split midway between Timor and Northwest Australia, while the Australians wished for a simple straight line linking the two ends of the boundary negotiated with Indonesia in 1972, much closer to Timor than to Northwest Australia.³⁷ An editorial in *The Age* of 11 October 1972 anticipated 'agreement with the Portuguese Government on the area lying off eastern Timor should follow the line already established'.³⁸

34 Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, p.85.

35 Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.87.

36 Hamish McDonald, 'Sounding the gap', *The Sydney Morning Herald*, 21 October 2000.

37 *House of Representatives Hansard*, 2 May 1973, p.1586, 15 May 1973, p.2129, and 2 June 1977, p. 2589; *Senate Hansard*, 17 May 1973, p. 1740, and 23 May 1973, p. 1840; Ian Davis, 'Rich seabed at stake in Indon talks', *The Age*, 2 February 1984. Andrew McNaughtan, 'New nation has opportunity for gains in the Gap', *The Sydney Morning Herald*, 13 April 2000.

38 'Room for two in a seabed', *The Age*, 11 October 1972.

In November 1970, the Portuguese Ministry of Foreign Affairs took note of the concessions granted by Australia in the Timor Sea in areas where Portugal itself intended to grant concessions, and therefore considered it desirable that urgent consultations take place, preferably in December 1970.³⁹ This did not happen, and on 20 April 1971 the Portuguese Ambassador in Canberra, Carlos Empis Wemans, renewed the request for negotiations at a meeting with Department of External Affairs Deputy Secretary Owen Harry. He was informed that Australia preferred to conclude the negotiations then taking place with Indonesia on a seabed boundary before entering into negotiations with Portugal. Wemans protested that in that case Portugal would be presented with a position on the boundary which had already been agreed with a third country.⁴⁰ Apparently Australia and Indonesia saw fit to hold negotiations on what was in fact a boundary between three countries, without including Portugal: the terminal points of the Australia-Indonesia-Portuguese Timor boundaries did require the agreement of Portugal, which was not obtained.

Harry drew to the attention of Wemans an announcement in the *Boletim Oficial de Timor* of 24 October 1970 of a request from Oceanic Exploration Company for an exploration concession in an area of the Timor Sea which overlapped an area claimed by Australia. Oceanic had written to the Ministro do Ultramar on 31 December 1968 applying for an oil and gas exploration lease. In describing the area of the Timor Sea for which it was applying, Oceanic noted that there were two ways of deciding the eastern and western division points between Portuguese Timor and Australia: 'If one uses perpendicular lines to shore between the Island of Timor and Northwestern Australia, the larger area prevails. If one, however, applies diagonal lines to establish the median point, then the smaller area prevails'.⁴¹ In the 1972 Australia-Indonesia seabed agreement, the terminal points of the Timor Gap (A16 and A17) were established using the diagonal lines, thus encroaching on the Portuguese area.

The Department of External Affairs replied to Wemans in a note of 25 May 1971, drawing his attention to the statement made in Parliament by External Affairs Minister McMahon on 30 October 1970, and stating Australia's claim that the whole of the area of the Timor Sea specified in the *Petroleum (Submerged Lands) Act 1967* formed part of the continental shelf belonging to Australia. The specified area was bounded by the Timor Trough. This being so, 'no question of negotiating a common boundary will arise where an area of ocean floor [*i.e.*, the Timor Trough] lies between the two shelves'.⁴²

39 Note verbale no 5191 du 2 novembre 1970 du Ministère des Affaires Etrangères portugais à l'Ambassade de l'Australie à Lisbonne, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.4, p.280.

40 Télégramme de l'Ambassade du Portugal à Camberra au Ministre des Affaires Etrangères portugais en date du 20 avril 1971, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.5, p.283.

41 Lettre de 'Oceanic Exploration Company' au Directeur-Général de l'économie, Ministère portugais d'Outre-mer, 31 décembre 1968, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.3, p.277.

42 Note du Ministère des Affaires Etrangères australien à l'Ambassade du Portugal à Camberra du 25 mai 1971, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.6, p.286.

In a statement that verged on the disingenuous, Minister for National Development Reginald Schwartz advised the Parliament on 26 October 1972 that the Portuguese Government had not made known its position.⁴³ Although the Australian Government was officially informed of Portugal's view only after the signing of the treaty with Indonesia in October 1972, it was known unofficially long before: a 'special correspondent' writing in *The West Australian* of 3 June 1972 reported that Portugal was expected to support Indonesia's view that the shelf was continuous and the Trough just an indentation in the shelf's surface, while Peter Hastings wrote in *The Sydney Morning Herald* of the same date: 'Obviously the Indonesian view is now shared by Portugal'.⁴⁴ *The Far Eastern Economic Review* of 15 July 1972 reported:

It is understood Portugal will align itself with Indonesia in seeking a share of the rich, shallow sea-bed between Timor and the Australian coast... Indonesia—and now Portugal—will seek a dividing line which would run half-way between Timor and the Australian mainland and cut across a dozen oil lease tenements granted by the Western Australian Government.⁴⁵

On 5 March 1973, the Department of Foreign Affairs wrote to Ambassador Wemans noting that Australia and Indonesia had negotiated seabed boundaries in the Timor Sea, and proposed that negotiations between Australia and Portugal commence in May or June 1973: 'the Australian Government would be grateful to be informed as soon as possible of the response of the Portuguese Government'.⁴⁶

Australian eagerness to conclude a boundary agreement in relation to Portuguese Timor was indicated in a speech by Senator Justin O'Byrne on 23 May 1973:

It can only be to our advantage to have this matter settled amicably. We have the very good fortune to possess a defined area that is potentially rich. It has been stated that this area could become the richest hydrocarbon empire in the world. It contains gas and oil in quantities that could match even the fabulous riches of the Middle East. The future of Australia, at a time when a fuel crisis is developing in the United States of America and when the traditional source of supply of hydrocarbons is the subject of very delicate arrangements, with certain traditional practices being changed and the prices being under barter, is bright. We are extremely fortunate that at this time we are emerging into an era of self-sufficiency or near self-sufficiency in the supply of hydrocarbons.⁴⁷

The optimism expressed by Senator O'Byrne was based on the information gained by Australian exploration companies. Seismic work carried out by Burmah Oil in 1969 and 1970 had given rise to an estimate that the so-called 'Kelp Structure', the most prospective area in the Timor Sea, contained between 500 million and 5 billion

43 *House of Representatives Hansard*, 26 October 1972, p. 3381.

44 'Sea-bed row looms over oil-gas field', *The West Australian*, 3 June 1972; Peter Hastings, 'Whose Riches Under The Sea?', *The Sydney Morning Herald*, 3 June 1972.

45 Purita Go and Kingsley Wood, 'Timor: Border problems', *Far Eastern Economic Review*, 15 July 1972, p.21.

46 Note 756/1/4 du Ministère des Affaires étrangères australien à l'Ambassade du Portugal, 5 mars 1973, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.7, p.289. The Department of External Affairs became the Department of Foreign Affairs following the December 1972 change of government.

47 Senator J. O'Byrne, *Senate Hansard*, Vol S 56, 23 May 1973, p.1838. Senator Wriedt, *Senate Hansard*, Vol.56, 23 May 1973, p.1840.

barrels of oil, and gas reserves of some 50,000 billion cubic feet of gas.⁴⁸ The Timor Sea, virtually in its entirety, was viewed as a highly prospective area.⁴⁹

Portugal had claimed sovereignty since 1956 over the seabed in accordance with current international law, subsequently codified in the 1958 Geneva Convention. It was known that in the Timor Sea case, the Portuguese preference had been for a median line determination.⁵⁰ Yet, it seemed that the Australian government was reluctant to test the relevance of its prior settlement with Indonesia to that of the remainder of the boundary with Portugal. When asked in the Senate on 23 May 1973 if it was the Australian government's intention to seek international adjudication, Senator Wriedt replied on behalf of the Government that Australia intended to proceed with direct negotiations 'in the hope that we can arrive at some definitive position'.⁵¹ Minister for Minerals and Energy Rex Connor advised the Parliament on 2 May 1973 that Australia had been in contact with the Portuguese Government and expected discussions relating to the seabed to commence later that year (a tacit reference to the letter of 5 March 1973 to the Portuguese Ambassador).⁵² The Whitlam Government was reported in July 1973 to be insisting on a seabed boundary along the edge of the Timor Trough (*i.e.* the Mackay Line), even closer to Portuguese Timor than that with Indonesian Timor.⁵³ The Portuguese government indicated in November 1973 that 'they did not wish to begin negotiations until after the United Nations Law of the Sea Conference, the first session of which was due to open in Caracas in June 1974'.⁵⁴

In January 1974, Portugal granted exploration permits in the Timor Sea to the United States company, Oceanic Exploration.⁵⁵ The permit area covered 23,192 square miles (60,700 square kilometres) extending from a point not far from the south coast of the territory to the median line with Australia, and overlapped exploration

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- 48 Mark Westfield, 'Showdown at Timor Gap', *Australian Business*, 28 March 1984, pp.44-45.
- 49 Addressing the APPEA Conference in Hobart on 9 April 2001, Peter Galbraith, Cabinet Member for Political Affairs and the Timor Sea in the East Timor Transitional Government, said: 'The scale of the resources in the Timor Sea is vast: Bayu-Undan holds 3TCF of gas, Greater Sunrise nearly 10 TCF, Laminaria, Buffalo and Elang Kakatua are producing more than 220,000 barrels per day' (*Maritime Studies*, May/June 2001, p.2).
- 50 'Sea-bed row looms over oil-gas field', *The West-Australian*, 3 June 1972; Ian Sinclair, *House of Representatives Hansard*, Vol.105, 2 June 1977, p.2589; P.G. Ross, *The Impact of Geomorphology, Distance and Other Criteria as Determinants in Maritime Boundary Delimitation in the Timor Sea*, MA (Law) thesis, Australian National University, 1984, p. 7.
- 51 *Senate Hansard*, Vol 56, 23 May 1973, p.1840.
- 52 *House of Representatives Hansard*, 2 May 1973, p. 1586; also in *Senate Hansard*, 17 May 1973, p.1740.
- 53 'The Whitlam Government has made a particular point of condemning Portuguese colonial activities, and it is only logical to reinforce that position with a hard-nosed approach to a border... However, it is not appropriate for a Timor that someday may be independent' (Richard Ackland, 'Aust tough stance on Timor sea border', *The Australian Financial Review*, 20 July 1973).
- 54 Ian Sinclair, *House of Representatives Hansard*, Vol. 105, 2 June 1977, p.2589; Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.87; P.G. Ross, *The Impact of Geomorphology, Distance and Other Criteria as Determinants in Maritime Boundary Delimitation in the Timor Sea*, MA (Law) thesis, Australian National University, 1984, p. 7; 'Whip-crack at Portuguese', *The Age*, 28 March 1974.
- 55 The lease was first published in the *Diário do Governo* of 31 January 1974, and the notice was reprinted in Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.8, pp. 291-320.

permits granted by the Australian and Western Australian governments. The Kelp Structure lay within the area of overlap. The grant of the permit brought 'a strong diplomatic protest from Canberra'.⁵⁶ Portugal ignored the protest and in December 1974 the Ministry of Overseas Territories signed an agreement with Petrotimor, a consortium which grouped Oceanic Exploration with 'Portuguese interests'.⁵⁷ The Portuguese action represented a direct challenge to the Australian licenced exploration in the region. It also struck at Australian confidence in obtaining a settlement which joined boundaries established with Indonesia in an neat straight line, as had been hoped. This expectation was expressed during debates in both Houses during 1973, and partly arose from the optimism held by the Minister for Minerals and Energy, Rex Connor, that negotiations with Portugal would effect a settlement.⁵⁸ Also, Portugal had pre-empted its stated position that it would await the outcome of the impending UNCLOS deliberations, and while the Australian government knew Portugal's preference was for a median line settlement, the granting of the exploration permit to Oceanic Exploration/Petrotimor came as a shock to both the Australian government and its licensed exploration companies.⁵⁹

This shock would have been doubly significant given the confirmation of the region's hydrocarbon potential provided by recent exploration activity in the region. The Woodside-Burmah consortium,⁶⁰ whose permits were affected by the Portuguese overlap, had expanded its exploration operations considerably since 1972. From October 1973 it sought to overcome some of the logistic problems of operating in the Timor Sea by basing part of its well servicing operations in Kupang, in Indonesian Timor.⁶¹ The 'Big John' drilling rig was used to drill several wells, first in an area to the west of the Portuguese claim, and then in the Troubadour Shoals area, where it drilled several wells which indicated the presence of gas condensate.⁶² Confirmation of the prospectivity of the Timor Sea was given when Troubadour No.1 well was drilled in June 1974 on the Troubadour Shoals about 200 kilometres southeast of Timor, and intersected 83 metres of hydrocarbons.⁶³

Prime Minister Whitlam's irritation with Portugal over the question of the Timor Sea was expressed in Perth on 25 March 1974, when he revealed to the press during the recording of a television interview that the Australian Government had formally protested to Portugal about its encroachment into offshore resources areas claimed by

56 Brian Toohey, 'Oil: Portuguese tail-twisting could backfire', *The Australian Financial Review*, 26 March 1974; 'Whip-crack at Portuguese', *The Age*, 28 March 1974.

57 'Australia calls for report on oil leases', *The Age*, 14 December 1974.

58 Mr Connor, *House of Representatives Hansard*, 2 May 1973, p. 1586; Senator O'Byrne, *Senate Hansard*, Vol S 56, 23 May 1973, p.1838.

59 Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, citing discussions with Department of Foreign Affairs officials in July 1985, p.89.

60 The Woodside consortium comprised: Woodside Burmah Oil NL, 50%; Shell Development (Aust.) Pty. Ltd., 16.66%; BP Development Australia Pty Ltd, 16.66%; & Cal-Asiatic Oil Co., 16.66%.

61 R. Murray, 'Woodside To Service Shelf Well From Timor', *The Australian Financial Review*, 10 October 1973; John McIlwraith, "'Continental drift" theory given a run by Woodside-Burmah', *The Australian Financial Review*, 5 July 1974.

62 R. Murray, 'Woodside To Service Shelf Well From Timor', *The Australian Financial Review*, 10 October 1973; and R. Murray, 'Sunrise No.1 Points to New Gas Fields', *The Australian Financial Review*, 5 February 1975.

63 John McIlwraith, 'Drilling under way on remote Troubadour Shoals off Timor', *The Australian Financial Review*, 4 July 1974; Nigel Wilson, 'Keep hope fires burning', *The Australian*, 4 October 2000.

Australia south of Timor by giving a concession to Oceanic Exploration.⁶⁴ The article in *The Australian Financial Review* which reported this provoked a protest from the Portuguese Ambassador, Carlos Empis Wemans, that the Prime Minister had made public the dispute with Portugal. A subsequent note from the Ambassador said:

Whilst regretting the fact of the Australian Prime Minister having made public declarations on the subject, the Portuguese Government maintain their willingness to enter into negotiations with the Australian Government. However, since a conference on the Law of the Sea is scheduled to take place in Caracas, in June next, the Portuguese Government are of the opinion that immediate negotiations would be ill-timed and would therefore prefer to await the results of that Conference.⁶⁵

Political developments in Portugal added to the uncertainty regarding the settlement of the seabed boundary between Australia and Portuguese Timor. On 25 April 1974 the so-called 'Carnation Revolution' (*Revolução dos Cravos*) took place in Lisbon, overthrowing the 'Estado Novo' which had been established over forty years earlier by António de Oliveira Salazar. The new Portuguese Government was committed to decolonisation.⁶⁶ 'At that time', Gough Whitlam said, 'there was a change: they decided to get out of all their colonies'.⁶⁷ In Timor, the decolonisation policy was to be implemented by a team led by Colonel Mário Lemos Pires, who took up his appointment as Governor on 18 November 1974.⁶⁸

A Department of Foreign Affairs policy planning paper drawn up following the Lisbon coup of 25 April stated that Australia should 'bear in mind that the Indonesians would probably be prepared to accept the same compromise as they did in the negotiations already completed on the seabed boundary between our two countries. Such a compromise would be more acceptable to us than the present Portuguese position.' The paper advised caution to prevent Australia being seen as motivated by its own self-interest in pushing either for independence or incorporation of the territory.⁶⁹ This approach was endorsed at a 3 May 1974 meeting of a departmental *ad hoc* task force on Portugal.⁷⁰ This caution was subsequently manifested in the insistence consistently maintained by the Australian Government that the question of the territory's political status was quite distinct from that of the maritime boundary in the Timor Sea. By the artifice of 'compartmentalizing' the two issues, public

64 Mr Whitlam told an interviewer from Perth's Channel Seven that Portugal had given rights to big sections of the North-West Shelf to an American oil company, and said that in the previous two days the Australian Government had protested to the Portuguese Government. He was now free to speak on the matter, he said, because the protest to Portugal had been lodged ('N-W Shelf centre of dispute', *Daily News*, 25 March 1974); see also Brian Toohey, 'Oil: Portuguese tail-twisting could backfire', *The Australian Financial Review*, 26 March 1974; 'Big oil area off NW in dispute', *The West Australian*, 26 March 1974.

65 25 March and 18 April 1974; Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, pp. 321-6, Vol.V, Annexes IV.9-10.

66 Mr Whitlam, submission to Senate inquiry, 26 March 1999, pp.7.

67 Mr Whitlam, *Committee Hansard*, 6 December 1999, p.976.

68 Mário Lemos Pires, *Descolonização de Timor: Missão impossível?* Lisboa, Publicações Dom Quixote, 1991.

69 Wendy Way, Damien Browne and Vivianne Johnson (eds.), *Australia and the Indonesian Incorporation of Portuguese Timor, 1974-76*, Melbourne University Press, 2000, p.52.

70 Wendy Way, Damien Browne and Vivianne Johnson (eds.), *Australia and the Indonesian Incorporation of Portuguese Timor, 1974-76*, Melbourne University Press, 2000, p.53.

consideration of the bearing of the Timor Gap on Australia's policy toward East Timor was 'defined out'.⁷¹

On 29 November 1974, the Department of Foreign Affairs again wrote to the Portuguese ambassador, setting out the basis of Australia's claims in the Timor Sea, and asking 'that the Portuguese Government not permit any activities, relating in any way to exploration or exploitation of the sea-bed or subsoil in the areas concerned by the established Australian permits'.⁷² This letter, a response to the Portuguese letter of 18 April, had been discussed at an interdepartmental meeting convened by the Department of Foreign Affairs on 25 September.⁷³

Australian petroleum exploration in and off Timor

The Australian company Timor Oil NL had been active on Timor since 1956.⁷⁴ However, its lack of success, and its lack of resources, prompted it to enter into a 'farm in' arrangement in 1972 with International Oils Exploration NL and Amalgamated Petroleum. All three companies had an interlocking directorate, the same office, and the same company secretary, Mr. P.M. Allen. Subsequently, the new group undertook the drilling of two exploration wells in the Betano Structure off the south coast of Portuguese Timor. One of the partners also undertook a marine seismic reflection survey of the Kolbano Structure off the south coast of Indonesian Timor.⁷⁵

The reason for this growth in interest in Timor and its surrounding shelf area, was linked to the establishment of a relationship between those Jurassic-Triassic sediments on Australia's North West Shelf and 'relatively similar sediments ...present in Timor'. In addition, the presence of oil and gas seeps on the island would appear to have provided further 'encouraging possibilities'. However, this small consortium did not have the capital to undertake a major exploration program in their concession area.⁷⁶ Consequently, during 1973, negotiations were conducted with 'a well known and successful oil company who have expressed definite interest' in the area, resulting in a series of 'farm in' arrangements being concluded between Woodside-Burmah and International Oils and Timor Oil.⁷⁷ The first of these earned Woodside the right to 65% of a contract International had with Pertamina to carry out a marine seismic

71 Minister for Foreign Affairs Gareth Evans stated in the Senate on 1 November 1989: 'Australia has consistently supported discussions between Portugal and Indonesia under the auspices of the United Nations Secretary-General to resolve the lingering East Timor issue as it exists between those two countries. That is a matter that relates to the dispute between Portugal and Indonesia, to which Australia is not a party, and is quite separate from the Timor Gap negotiations.'

72 Note du Ministère des Affaires étrangères australien à l'Ambassade du Portugal à Camberra, 29 novembre 1974 (Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.11, p.327).

73 'Portuguese Timor-Seabed Boundary', Wendy Way, Damien Browne and Vivianne Johnson (eds.), *Australia and the Indonesian Incorporation of Portuguese Timor, 1974-76*, Melbourne University Press, 2000, pp.111-12.

74 J. Jolliffe, *East Timor: Nationalism and Colonialism*, Brisbane, University of Queensland Press, 1978, p.58.

75 International Oils Exploration NL, *Director's Report*, 1972, p. I; *Retrieval*, Feb/March, 1976, p. 6.; cited in Mills, p.91.

76 International Oils Exploration NL, *Director's Report*, 1972, pp.1,2; *Retrieval*, Feb/March, 1976, p.6.

77 The Woodside consortium comprised Woodside Burmah Oil NL, 50%; Shell Development (Aust) Pty Ltd, 16.66%; BP Development Australia Pty Ltd, 16.66%; and Cal-Asiatic Oil Co, 16.66%.

survey and an on-shore geological survey, including the drilling of 2 to 4 wells.⁷⁸ The second earned Woodside-Burmah a 30% interest in Timor Oil's contract to similar work. Prior to this, the Portuguese extended Timor Oil's rights for two further years, and re-affirmed production rights for thirty years after that time.⁷⁹ Also, in 1972, BHP obtained from the Portuguese government 'a concession to prospect for minerals for an initial period of four yearsrenewable for a further three years with an option at the end of that time of an extra twenty years'.⁸⁰

The initial success of the Mola No.1 Well off the south west corner of Portuguese Timor, caused 'frenzied trading in the shares of Timor Oil and its senior partner Woodside Burmah'. This well encountered high gas readings, but subsequent testing showed no commercial hydrocarbon accumulations.⁸¹ The strategic significance of potential oil reserves in the Timor Sea generally, but specifically in the Timor Gap, had risen greatly in response to the OPEC induced world oil price 'hikes' since 1972.⁸² Apart from the apparent abundance of hydrocarbons, an attraction for investors was that '...any oil discovered can be sold at world parity price, which is four times higher than the Australian crude price'.⁸³ The disparity between the price of oil produced outside Australia and that within had resulted from Minister for Minerals and Energy Rex Connor's plan to apply a fixed price to all Australian oil discovered from this time. The development during 1974 and early 1975 of Australia's commercial and national interests on and off Indonesian and Portuguese Timor had added an economic dimension to the political relationship between Indonesia, Australia and Portugal regarding the political future of Portuguese Timor.⁸⁴

Woodside-Burmah withdrew from both its 'farm in' arrangements on completion of the contract requirements. This withdrawal was attributed by the company to be for reasons associated with the need to 'concentrate resources on the development of the North West Shelf'.⁸⁵ However, the reasons for this abrupt withdrawal 'were more political than geological, according to oil industry sources in Jakarta'.⁸⁶ This conclusion would appear to be substantiated by Woodside's eagerness to fulfil the obligations entailed in its 'farm in' arrangements, and subsequent sharp market reactions to these activities. These included the drilling of the Mola No.1 well from 5 February 1975 off Portuguese Timor, and the Savu No.1 well off Savu Island in October 1975. In addition, the company acquired 2,129km and 504 kms of 'high

78 Woodside-Burmah's 1974 *Annual Report*, p.6, and International Oil's Letter to Shareholders, March, 1974.

79 Woodside's total concessions on Timor and in the Timor Sea as of mid-1974 are described in Woodside Burmah's 1974 *Annual Report*, p.4, 'Chairman's address to the Members of Timor Oil. Ltd.', 5 December 1973, and Joint Statement issued by Woodside and Timor Oil, May 1974.

80 Jolliffe, *East Timor: Nationalism and Colonialism*, Brisbane, University of Queensland Press, 1978, p.58.

81 Woodside Burmah Oil NL, 1974 and 1975 *Annual Reports*, pp.4-5 & p.6 respectively.

82 Whilst Australia was insulated from the immediate effects of those hikes (77% in Oct. 1973, followed by a further 50% in December, or a per barrel price increase, from US\$3 to US\$11, Hallwood and Sinclair, *Oil, Debt and Development*, Allen and Unwin, 1981, Ch.5), any diminution of domestic supplies had negative implications for Australia's future economic situation (Mills, p.94).

83 'Speculator's Diary', *The Bulletin*, 22 February 1975, p.63.

84 Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, p.95.

85 Woodside-Burmah Oil NL, 1975 *Annual Report*, p.6.

86 Hamish McDonald, 'Indonesia cool on Timor Oil Search', *The Australian Financial Review*, 29 December 1975.

quality seismic data' in Indonesian and Portuguese Timor respectively, during 1974.⁸⁷ The precise nature of any minerals exploration undertaken by BHP in Portuguese Timor is unclear; however, the development of Timor's uncertain political situation from mid-1974 effectively halted the implementation of any long term plans it may have had.⁸⁸ Hamish McDonald reported in December 1975 that Indonesia had reached a 'suitable understanding' with those oil companies involved whereby, 'the companies agreed to delay exploration without protest in return for a guarantee of their present positions in the future'.⁸⁹ The belief that Timor Oil (representing Woodside-Burmah and BP Australia) was waiting for a coup or invasion to re-negotiate its leases, as Indonesia would give much better conditions than the Portuguese or Fretilin were likely to offer, was held by the Portuguese negotiator from the Inspeção Geral da Minas, Alexandre Avelar Barbosa, who said so in Darwin after he had been evacuated from Dili following the 11 August 1975 coup.⁹⁰

The civil war in Timor following the August 1975 coup forced Petrotimor to abandon its offices in Dili and the exploration activity it had been carrying out in the Timor Sea. On 14 April 1976, the Inspeção Geral da Minas wrote to Petrotimor giving an assurance from the Secretary of State for Inter-territorial Co-operation that the terms and contractual obligations granted to Petrotimor would 'become entirely effective and in force again, as soon as the general situation in the territory of Timor is stabilized at a minimum level of normality allowing the concessionary to proceed with its activity'.⁹¹

Negotiations with Indonesia on the Timor Gap

No further negotiation over the Timor Gap took place between Australia and Portugal as the situation in Portuguese Timor became increasingly unstable, culminating in Indonesia's invasion and occupation of the territory in October-December 1975. As Indonesia's intentions became more evident, Ambassador Richard Woolcott sent a cable from Jakarta on 17 August 1975 to Secretary of the Department of Foreign Affairs Alan Renouf, in which he said:

We are all aware of the Australian defence interest in the Portuguese Timor situation but I wonder whether the Department has ascertained the interest of the Minister or the Department of Minerals and Energy in the Timor situation. It would seem to me that this Department might well have an interest in closing the present gap in the agreed sea border and this could be much more readily negotiated with Indonesia by closing the present gap than with Portugal or independent Portuguese Timor.⁹²

87 Woodside Burmah Oil NL, *Annual Reports* for 1974 and 1975, pp.4-5 & p.6 respectively.

88 International Oils Exploration NL, *Director's Report*, 1972, p.1, *Retrieval*, Feb/March, 1976, p. 6. p. 100; cited in Andrew Mills, *Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation Negotiations*, Bachelor of Arts (Honours) Thesis, University of Adelaide, 1985, p.92.

89 Hamish McDonald, 'Indonesia cool on Timor Oil Search', *The Australian Financial Review*, 29 December 1975.

90 Statement by Senator Cyril Primmer, *Senate Hansard*, 24 February 1976, p.150.

91 Lettre du Directeur du service juridique de l'Inspection générale portugaise des mines, 14 avril 1976, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie) mémoire du gouvernement de la république portugaise*, La Haye, 1991, Vol.V, Annexe IV.14, p. 336.

92 *Documents on Australian Defence and Foreign policy, 1968-1975*, Munster and Walsh, Angus and Robertson.1980, p.200.

Implicit in Woolcott's suggestion was the implication that Australia had a vested interest in an Indonesian takeover of Portuguese Timor. Given that this suggestion was made in the context of an intra-department discussion over the 'wisdom', or otherwise, of the Prime Minister's intention of expressing Australia's 'concern' with the 'settled Indonesian policy to incorporate Timor', it has a further connotation: Woolcott was apparently arguing that since Timor's incorporation was 'settled policy' as far as Indonesia was concerned, further attempts by Australia to deflect Indonesia from this objective would incur the latter's hostility. Hence, in his opinion, Australia should reconcile itself to this *fait accompli*, and attempt to maximise its own interests in terms of extracting a favourable maritime settlement. Whilst not expressed in terms of a quid pro quo, Woolcott was apparently urging Australian acquiescence on this basis. There is no explicit evidence of a *quid pro quo* agreement with Indonesia but this was unnecessary as, given the circumstances, it was implied in Australia's acquiescence to Indonesia's incorporation.

Following the Indonesian invasion, Ambassador Woolcott briefed the press at the Australian embassy in Jakarta, saying that if Australia had helped in the formation of an independent East Timor, it could have become 'a constant source of reproach to Canberra... It would probably have held out for a less generous seabed agreement than Indonesia had given off West Timor'.⁹³

In October 1976 Indonesian Justice Minister, Professor Mochtar Kusumaatmadja, confirmed that Indonesia was prepared to negotiate a settlement of the seabed boundary to close the Timor Gap on the same favourable terms as the 1972 Indonesia-Australia seabed treaty, in return for recognition of Indonesia sovereignty over East Timor. Professor Mochtar had been a senior member of the Indonesian team which had negotiated the the Australia-Indonesia seabed boundaries in 1971 and 1972. General Ali Moertopo said that Australian petroleum and mineral exploration companies with leases in East Timor granted by the Portuguese Government, such as Timor Oil Ltd and Woodside-Burmah, were 'welcome' to resume operations, provided they re-negotiated their rights with Indonesian authorities.⁹⁴ Woodside-Burmah's Troubadour No.1 well, drilled in June 1974 in the Timor Sea, had produced hydrocarbon findings that had raised hopes of commercial deposits.⁹⁵ The question of whether Indonesia had promised agreement on a seabed boundary closing the Timor Gap in return for Australian recognition of its incorporation of East Timor was reportedly discussed at a meeting of the Australia Indonesia Business Co-operation Committee on 15 October 1976.⁹⁶ Those in the business community who felt their trade investments in with Indonesia would be jeopardised by continuance of the policy of non-recognition of Indonesia's incorporation of East Timor enunciated by Foreign Minister Andrew Peacock on 4 March urged the Government to reverse its stance on Timor.⁹⁷

93 Hamish McDonald, 'Australia supports Indonesia takeover of East Timor', *The National Times*, 15-20 December 1975.

94 Michael Richardson, 'Indonesia's Timor carrot', *The Australian Financial Review*, 19 October 1976.

95 'Hydrocarbon encounter by Woodside', *The Australian Financial Review*, 3 July 1974; Hamish McDonald, 'Indonesia cool on Timor oil search', *The Sydney Morning Herald*, 29 December 1979.

96 Russell Skelton, "Recognise takeover" — Companies in approach to Canberra', *The Age*, 23 October 1976; 'Timor Sold for Oil', *Tribune*, 27 October 1976.

97 Michael Richardson, 'Timor: one year later', *The Age*, 7 December 1976.

Reports that talks on completing a border in the Timor Gap were held during Prime Minister Malcolm Fraser's visit to Jakarta in October 1976 provoked Fretilin's information officer, Mr Chris Santos, to issue a statement in Canberra saying: 'If Australia does not recognise the Indonesian takeover of East Timor, then it follows that such talks are illegal and contrary to the wishes of the East Timorese people. Fretilin and the Government of the Democratic Republic of East Timor reject such talks'.⁹⁸ However, the Fraser Government did not consider it opportune to pursue negotiations on a seabed boundary at that time, when Australia's official position was still not to acknowledge Indonesian sovereignty over East Timor.⁹⁹ A modification of Australia's stance was signalled when Mr Peacock said in a statement to Parliament on 20 October 1976 that the Government had not recognised Indonesia's incorporation of East Timor, but had to accept 'certain realities'. Australia had to take into account 'Indonesia's view that East Timor is now part of Indonesia and that this situation is not likely to change'.¹⁰⁰

A further modification of Australia's position was announced on 20 January 1978, when Foreign Minister Peacock said that the Government had decided to 'recognise de facto' that East Timor was part of Indonesia, even though Australia remained 'critical of the means by which integration was brought about'. Mr Peacock asserted that it would be unrealistic not to recognise effective Indonesian control. The Government presented the recognition as a measure that would speed up the processing of family reunion requests.¹⁰¹ Senator Cyril Primmer commented that the decision to recognise integration was made in order to settle the seabed border between Australia and East Timor.¹⁰²

Labor Party leader Bill Hayden, in his first statement on Indonesia as Leader of the Opposition, called Indonesia's occupation of East Timor unjustifiable, illegal, immoral and inexcusable and recognition inconceivable. 'It is inconceivable,' he said, 'that the Australian people who have built their nation on a firm belief in the rights and freedoms of people would in the circumstances endorse the Government's action in recognising Indonesia's seizure of East Timor'.¹⁰³

In March 1978 it was announced that Australia and Indonesia had agreed to negotiate a permanent seabed boundary south of East Timor. The question of the seabed boundary had been discussed at the annual meeting of senior Australian and Indonesian foreign ministry officers on 7-8 February. The Australian and Western Australian Governments had by this time granted a total of six petroleum exploration permits in the area of dispute, although no exploration work had been conducted in the area since 1975. Under the terms of its permit, at least one of the exploration consortia was obliged to begin drilling before September 1979. In granting or renewing permits, it had been assumed by the Australian authorities that when a permanent boundary was determined it would be drawn more or less as a straight line linking the eastern and western ends of the 1972 boundary.¹⁰⁴ Aquitaine-Elf was one

98 'PM accused of "illegal" talks on sea border', *The Canberra Times*, 18 October 1976.

99 Mike Steketee, 'Seabed border plan shelved,' *The Sydney Morning Herald*, 19 October 1976.

100 *House of Representatives Hansard*, 20 October 1976, pp.2015-6.

101 Stephen Nisbet, 'Timor is Indonesian now: takeover reality: Peacock,' *The Age*, 21 January 1978.

102 *Senate Hansard*, 22 February 1978, p79; "'Scramble for oil" led to Timor recognition', *The Canberra Times*, 23 February 1978.

103 Michelle Grattan, 'Timor: sense or just a sellout?,' *The Age*, 23 January 1978, p. 8.

104 Michael Richardson, 'Drawing the seabed line,' *Far Eastern Economic Review*, 10 March 1978.

of the permit-holders. That company's Australian exploration manager, Mr G. Dailly, expressed the common hope on 20 February 1978:

No one would want to find oil there without knowing who owns it. But we are not expecting any major problems over the border now because of the border lines already agreed to by Indonesia on either side of the disputed area. If these two lines are just joined together, there will be no trouble at all.¹⁰⁵

It was at this point that the complicating factor of the lease granted in January 1974 by Portugal to Oceanic Exploration/Petrotimor came into play. Petrotimor's lease extended to the median line between Timor and northern Australia, cutting across the leases which had been granted by Australian authorities. The President of Oceanic, Wesley N. Farmer, declared in May 1977 that the company regarded East Timor as part of the Indonesian Republic. The company looked to the Indonesian Government to safeguard the integrity of its investment.¹⁰⁶

On 15 December 1978, Foreign Minister Peacock announced to a press conference after meeting with Professor Mochtar Kusumaatmadja, now Indonesian Foreign Minister, that Australia would give *de jure* recognition of Indonesia's sovereignty over East Timor early in 1979 when talks on delineating the seabed boundary between the province and Australia began: 'The negotiations when they start, will signify *de jure* recognition by Australia of the Indonesian incorporation of East Timor'. Australia had to 'face the realities' of international law in negotiating the seabed boundaries, he said, but this did not mean the Australian Government accepted the way in which Indonesia had 'incorporated' East Timor.¹⁰⁷ Foreign Minister Mochtar took the opportunity of media interviews at this time to publicly voice his complaint that Australia had 'taken Indonesia to the cleaners' in 1972.¹⁰⁸

On 8 March 1979, Mr Peacock said in an answer to a question on the seabed negotiations with Indonesia:

In accordance with the agreement I reached with the Indonesian Foreign Minister in December 1978, Australian and Indonesian officials met in Canberra from 14 to 16 February to commence negotiations on the delineation of the seabed between Australia and East Timor.¹⁰⁹

The talks on the maritime boundary of 14-16 February 1979 in Canberra were followed by a further round of talks in Jakarta in May, another round in November

105 Peter Terry, 'Way opens for Timor oil hunt', *The Australian Financial Review*, 21 February 1978. 'Drawing the seabed line', *Far Eastern Economic Review*, 10 March 1978.

106 Michael Richardson, 'Tying up Timor's loose ends', *Far Eastern Economic Review*, 5 January 1979, and 'Aust-Indonesia talks on seabed boundaries', *The Australian Financial Review*, 6 March 1978; Peter Hastings, 'Rearranging the sea bed a task of diplomacy', *The Sydney Morning Herald*, 22 December 1978.

107 *The Canberra Times*, 16 December 1978.

108 Michael Richardson, 'Jakarta's Tough Sea Boundary Claim', *The Australian Financial Review*, 20 December 1978; 'Boundary threat to seabed leases', *The Sydney Morning Herald*, 21 December 1978; and Peter Hastings, 'Re-arranging The Sea Bed A Task For Diplomacy', *Sydney Morning Herald*, 22 December 1978. Dr. Mochtar had already expressed this view to Ambassador Woolcott privately in 1977 (Richard Woolcott, 'Fixed Relations', *The Australian*, 15-16 March 1977).

109 *Senate Hansard*, 8 March 1979, p.720; quoted in *The Australian Year Book of International Law*, vol.10, p.273.

1980, and a fourth round in October 1981 which resulted in a Provisional Fisheries Surveillance and Enforcement Agreement, that divided respective national responsibilities along a median line boundary.¹¹⁰ Thereafter there was a hiatus in negotiations until after the change of government in Australia as a result of the March 1983 election. The fifth round of talks between Indonesia and Australia on maritime boundaries in the Timor Sea took place in Canberra in the first week of February 1984, but ended without resolution. Added urgency was given to the talks by the success of a test well, Jabiru 1a, drilled in October 1983 by a consortium led by BHP, which struck an oil flow of 7,500 per day.¹¹¹ In March 1984, Professor Mochtar commented:

The Indonesian position is based squarely on the law existing at present. The Australian position is that we should just draw a line connecting the old lines. In effect it is saying, "Negotiate in 1984 on the basis of the 1958 convention, which has already been revised." It's an untenable position... When the need for a solution becomes really great, paramount, then a political decision can be made overriding the technical arguments.¹¹²

In April 1984 the importance of concluding an agreement with Indonesia to close the Timor Gap was given by Foreign Minister Bill Hayden as a reason for recognizing Indonesian sovereignty over East Timor. In a speech to the Joint Services Staff College in Canberra, Mr Hayden referred to the 'extraordinarily complex and difficult and demanding' negotiations going on over the seabed boundary, and said:

There is, as you know, a large gap off East Timor in that boundary. In that gap is positioned the natural gas fields and probably oil fields. We would not be regarded with great public celebration if we were to make a mess of those negotiations, and yet the implication of the negotiations is that as the area open or undefined at this point is off East Timor, a certain recognition must be established to East Timor.¹¹³

In the lead-up to the July 1984 ALP Federal Conference, Dr Mochtar Kusumaatmadja implied in an interview that an anti-Indonesian resolution on East Timor at the conference could lead to a major break between the two countries. In answer to a question on negotiations over the Timor Gap, Dr Mochtar said: 'We can only negotiate if Australia recognises Indonesian sovereignty over East Timor. If it doesn't then it should negotiate with Portugal or Fretelin, whichever it recognises'.¹¹⁴

At the Federal Conference of the Australian Labor Party on 11 July 1984, a resolution moved by Minister for Science and Technology Barry Jones was passed, stating that the ALP expressed 'its continuing concern at the situation in East Timor, particularly its officially stated objection to the fact that the former Portuguese colony was incorporated without the East Timorese people being given an opportunity to express their own wishes through an internationally supervised act of self-determination.' This was somewhat more conciliatory toward Indonesia than the 1982 policy it replaced, which 'condemned and rejected the Fraser Government's

110 P.G. Bassett, 'Australia's Maritime Boundaries', *Australian Foreign Affairs Record*, vol.55, no.3, March 1984, p.188.

111 'Timor talks unresolved', *The Australian*, 6 February 1984.

112 Michael Richardson, 'Australian claims to oil area untenable, says Indonesia', *The Age*, 31 March 1984.

113 Teresa Mannix, 'Recognising East Timor 'hard reality'', *The Canberra Times*, 18 April 1984.

114 Peter Hastings, "'Cool it', Jakarta tells Australia', *The Sydney Morning Herald*, 29 June 1984.

recognition of the Indonesian annexation of East Timor', and opposed all defence aid to Indonesia 'until there is a complete withdrawal of occupation forces from East Timor'.¹¹⁵ It represented a victory for Mr Hayden over those in the ALP who wanted a return to the wording of the resolution approved at the National Conference in Perth in 1977, which 'noted the establishment of the Democratic Republic of East Timor on 28 November 1975.' In arguing for a more conciliatory policy, Mr Hayden had been able to draw to the attention of Mr Jones and his supporters a recent change in policy by Fretilin, which had abandoned its claim to be 'the sole legitimate representative of the Timorese people' embodied in the 1975 constitution of the Democratic Republic of East Timor. Fretilin had declared the DRET and its constitution to be 'suspended', and was seeking a peace conference with the participation of Indonesia, Portugal, the Timorese Catholic Church, and Timorese parties which supported self-determination.¹¹⁶

Dr Mochtar Kusumaatmadja commented on the resolution on 17 July, saying, 'Considering the ALP resolution does not question the integration of East Timor, I take it... this means that the former Fraser policy is being continued.' During talks in Jakarta immediately following the Federal Conference, Mr Hayden and Dr Mochtar agreed to continue negotiations on the Timor Gap boundary. However, Dr Mochtar dismissed Australia's argument that the boundary should follow the Timor Trough rather than the mid-line, as 'untenable'.¹¹⁷

A quite different reaction to the resolution came from Portugal. Mr Hayden met with the Portuguese Foreign Minister, Dr Jaime Gama, in Lisbon on 6 August 1984. Dr Gama said that Australia should respect Portugal as the administering power of East Timor, recognised as such by the United Nations.¹¹⁸ Dr Gama said that Portugal harboured 'the greatest reservations' over the Hawke Government's attempts to legalise Australia's territorial boundaries with East Timor in talks with Indonesia. He said the talks did 'not respect the resolutions of the United Nations or international law'.¹¹⁹

At the November 1984 maritime boundary talks in Jakarta the Australian side raised the option of a joint development zone in the disputed area, with any commercial resources to be shared equally. In subsequent separate discussions with Foreign Minister Hayden and Minister for Resources and Energy Gareth Evans, the Indonesian Foreign Minister, Professor Mochtar, and the Mining and Energy Minister, Professor Subroto, reacted favourably to the suggestion.¹²⁰

Prime Minister Hawke gave an interview on Indonesian television broadcast on Indonesia's National Day, 17 August 1985, during which he unequivocally said,

115 Pat Walsh, 'ALP Conference: A requiem for Timor?', *Inside Indonesia*, no.3, October 1984, pp.18-22.

116 Jill Jolliffe, 'Fretilin drops demand', *The Age*, 7 November 1984.

117 'Talks likely on "Timor gap"', *The Australian Financial Review*, 20 July 1984.

118 Nikki Savva, 'Portugal unhappy with Hayden over Timor talks', *The Australian*, 10 September 1984. On 7 July 1976, Opposition Leader Gough Whitlam had been told in Lisbon by Socialist Party Leader Mario Soares that Portugal would continue to look to the United Nations for a solution, and could not adopt a position contrary to the United Nations. Ambassador Frank Cooper commented in his report on the meeting: 'As we have previously reported, there seems no disposition either in the Provisional Government or the Foreign Ministry to abandon the self-determination principle' (Cooper to DFA, 7 July 1976, CRS A6364/4 LB1975/12).

119 Jill Jolliffe, 'Hayden, Eanes gloss over differences', *The Age*, 10 September 1984.

120 'Joint exploration plan for Timor oilfields', *The Age*, 16 August 1985.

regarding East Timor, 'We recognise the sovereign authority of Indonesia.'¹²¹ Foreign Minister Mochtar commented on Mr Hawke's statement, saying it 'was a welcome statement, of course, in fact expressing Australian Government policy as conducted for some time, although unstated'.¹²²

President Eanes of Portugal said that Mr Hawke had given an interview on Indonesian television about the international status of East Timor, a territory under Portuguese administration. The President said that Australian-Portuguese relations were 'of such a nature to assume that no official attitude which might jeopardise national interests would be taken without the prior knowledge of the other party'.¹²³ The Portuguese Government claimed Mr Hawke's open statement of Australia's recognition of Timorese incorporation would jeopardise Portugal's attempt to bring about an agreement, under United Nations auspices, between Indonesia and the people of East Timor for an act of self-determination. Portugal expressed its displeasure by recalling Ambassador Inácio Rebello de Andrade to Lisbon for consultations.¹²⁴ Before he left Canberra, Dr Rebello de Andrade lodged a protest on behalf of his Government against the proposed Australian-Indonesian joint development zone in the Timor Gap. 'The Portuguese Government,' said Dr Rebello de Andrade, 'cannot but express to the Australian Government its vehement protest for the manifest lack of respect for international law'.¹²⁵

The sudden decision of Portugal to withdraw its Ambassador put the Australian Government in a position where it was compelled to confirm to Parliament the policy of recognition which Mr Hawke had stated in his interview on Indonesian television.¹²⁶ On 22 August 1985 the Minister for Resources and Energy, Senator Gareth Evans, stated in an answer to a question in the Senate, where he represented the Minister for Foreign Affairs, that the *de jure* recognition of Indonesian sovereignty over East Timor which the Fraser Government had given in 1979 had not been revoked by any subsequent government. He said:

The negotiations between Australia and Indonesia over the unresolved seabed boundary adjacent to East Timor have continued with the Indonesian Government. These negotiations, whose successful conclusion is of importance to Australia, can in practice only be conducted with the Indonesian Government.¹²⁷

Talks on the Gap between Senator Evans and Professor Subroto took place on 19 September 1985, and concluded with a further session in October with agreement

121 'Sovereignty over Timor recognised, PM says', *The Canberra Times*, 19 August 1985.

122 'Mochtar says PM's view on Timor is policy', *The Age*, 22 August 1985.

123 Jill Jolliffe, 'Portuguese rebuke to Hawke on East Timor', *The Canberra Times*, 21 August 1985.

124 Hugh White, 'Hawke shrugs off Portugal's Timor protest', *The Sydney Morning Herald*, 23 August 1985.

125 Bill Goodall, 'Portugal protests at zone', *The Canberra Times*, 21 September 1985. The Portuguese perceived Australia to be motivated by 'crass opportunism in signing away Timorese human rights in exchange for expected access to the oil-rich seabed' (Jill Jolliffe, 'Why Portugal is so angry over Timor', *The Age*, 4 September 1985).

126 Deborah Snow, 'Hawke confirms recognition of East Timor takeover', *The Australian Financial Review*, 23 August 1985.

127 *Senate Hansard*, 22 August 1985, p.169; quoted in *The Australian Year Book of International Law*, vol.11, pp.239-40. A statement in the same terms was also made by Prime Minister Hawke on that day in the House of Representatives.

in principle being reached on the establishment of a joint development zone.¹²⁸ Further talks took place in December 1985, March, May and June 1986. On 30 April 1986, Senator Evans stated: 'It is important for Australia's long term liquid fuels energy future that we be able to explore and hopefully then develop the oil fields which are reasonably thought to exist in the Timor Gap area.'¹²⁹

At its National Conference on 10 July 1986, the ALP formally recognised Indonesia's incorporation of East Timor. The new policy, formulated by Minister for Science Barry Jones, noted the Prime Minister's statement of 22 August 1985 that the Australian Government had given *de jure* recognition of the incorporation, 'regretted' that there was not an internationally supervised act of self-determination, and supported United Nations moves for a settlement. Mr Jones said 'We know that in 1979 the Fraser Government conferred *de jure* recognition on the incorporation of East Timor—I do not think in practise that this is now reversible.'¹³⁰

On 5 September 1988 Senator Evans, now Foreign Affairs and Trade Minister, and his successor as Minister for Resources, Senator Peter Cook, announced that agreement in principle had been reached by Australian and Indonesian officials for a Zone of Cooperation in the Timor Gap. Their statement said: 'the proposal to establish a Zone of Cooperation in the area between Timor and Northern Australia was the best possible means to ensure that both countries shared in the potential petroleum resources of the region until it became possible for a permanent seabed boundary to be delimited.'¹³¹ It was reported from Australian Government sources that success in reaching the agreement had resulted from an Indonesian decision 'at the highest level that this matter should be settled and as quickly as practicable'.¹³²

The Portuguese Ambassador to Australia, José Luiz Gomez, described the agreement as a 'blatant and serious breach of international law'. Mr Gomez recalled Portugal's 1985 protest at Australian negotiations with Indonesia over a Timor Sea boundary, on the grounds that Portugal was the internationally recognised administrative power for East Timor and said, 'So far, no qualitative change has occurred regarding the legal status of East Timor.'¹³³

Addressing the United Nations General Assembly on 5 October 1988, Portuguese Foreign Minister João de Deus Pinheiro again called for an act of self-determination by the people of East Timor. 'East Timor' he said, 'is for us a moral, historical and legal responsibility', as well as a collective responsibility for all UN members. 'We cannot ignore the drama of East Timor unless we become the accomplices of an intolerable policy of *fait accompli* imposed by force'. He said Portugal would do its utmost to find a just and comprehensive solution acceptable to the international community. It was committed to work with United Nations Secretary-General Javier Perez de Cuellar in a mediation effort, and hoped that Indonesia would act in the same spirit.¹³⁴

128 Michael Byrnes, 'Timor-gap talks show ice has melted', *The Australian Financial Review*, 29 October 1985.

129 *Senate Hansard*, 30 April 1986, p.2078.

130 'Indonesian rule in East Timor formally recognised', *The Sydney Morning Herald*, 10 July 1986.

131 Quoted in *The Australian Year Book of International Law*, vol.12, p.380.

132 Paul Grigson, 'Sea dispute settled: now hope for oil', *The Sydney Morning Herald*, 6 September 1989.

133 Anna Grutzner, 'Portugal challenges Timor Gap oil pact', *The Australian*, 12 September 1988.

134 'Portugal calls for Timorese independence', *The Age*, 5 October 1988.

By August 1989, confirmed reserves of petroleum in the Timor Sea fields amounted to 214 million barrels, with production of 42,000 barrels per day from the Jabiru field.¹³⁵

The Timor Gap (Zone of Cooperation) Treaty

Senator Evans and Senator Cook announced on 27 October 1989 that agreement had been reached with Indonesia on a treaty on a zone of cooperation in the Timor Gap. 'The agreement embodies in a real and practical way the strong mutual political will that now exists between Australia and Indonesia to work together as friends, neighbours and economic partners,' said Senator Evans. He said the treaty would be the most substantial bilateral agreement in the history of the relations between the two countries.¹³⁶

On 11 December 1989 Senator Evans and Indonesian Foreign Minister Ali Alatas (who had succeeded Professor Mochtar Kusumaatmadja) issued a joint statement informing that they had signed the Timor Gap (Zone of Cooperation) Treaty in a ceremony held in an aircraft flying over the area of the Zone in the Timor Sea. They noted that conclusion of the Treaty, 'while establishing a long-term stable environment for petroleum exploration and exploitation, would not prejudice the claims of either country to sovereign rights over the continental shelf, nor would it preclude continuing efforts to reach final agreement on permanent seabed boundary delimitation.'¹³⁷

The Timor Gap Treaty established a Zone of Cooperation in the area of the continental shelf between Australia and East Timor, comprising three distinct areas or zones of jurisdiction: Areas A, B and C. It created a regime that allowed for the exploration and development of hydrocarbon resources in the Zone. Area B lay at the southern end of the Zone and was administered by Australia. Area C lay at the northern end of the Zone and was administered by Indonesia. Area A was the largest area and lay in the centre of the Zone. The rights and responsibilities of Australia and Indonesia in relation to Area A were exercised by a Ministerial Council and a Joint Authority which was responsible to the Ministerial Council.¹³⁸

The west-to-east lines defining the zones in the Timor Gap Treaty reflected the earlier arguments of Australia based upon the natural prolongation of the Australian continental shelf northwards, up to the Timor Trough. The three zones were bounded on the west and east by what were loosely described as lateral median lines. The three zones were delimited by the following west-east lines (in order, starting with the most northerly, Area C):

- a. a simplified line representing the northern edge of the Timor Trough, being the furthest limit of Australia's diplomatic claims to the area);

135 Chris Milne, 'Wildcatting for the big one', *The Courier-Mail*, 5 August 1989.

136 'Australia and Indonesia settle Timor Gap Treaty', *The Canberra Times*, 28 October 1989; 'Australia, Indonesia plan Timor oil search' *The Sydney Morning Herald*, 28 October 1989.

137 Quoted in *The Australian Year Book of International Law*, vol.12, p.3802.

138 Attorney-General's Department, submission no.65, p.3.

- b. a simplified line along the 1500 metre isobath, representing the deepest part of the Timor Trough (which lies close to the line that would join the terminal points of the Australia-Indonesia agreements);
- c. the median line between Australia and East Timor; and
- d. a line 200 miles from East Timor, representing the maximum possible extent of an East Timorese Exclusive Economic Zone.

The lateral or side lines defining of the Zone of Co-operation were drawn by taking so-called 'simplified equidistance lines' between East Timor and Indonesia. They were based substantially on the location of the termini of the 1971 and 1972 seabed limits agreed between Australia and Indonesia. Each of the lateral lines has two segments, resulting in the 'coffin' shape of the Zone of Cooperation. On the western side, the northerly segment was drawn by taking a line from the end of the Timor Trough to the point known as A17, which was the eastern end of the boundary drawn in the 1972 agreement. This had the effect of bringing within the Zone of Co-operation the maximum extent of Australia's claim to a continental shelf, extending right up to the Timor Trough. The second, southerly, part of the western boundary of the Zone of Co-operation seems to have been determined by taking a line from point A17 and extending it to the southern boundary of the Zone of Co-operation, in the direction of a line drawn from Cabo Tafara in East Timor to Point A17.

On the eastern side the longest, southerly, segment of the lateral line was drawn by taking a line perpendicular to the Indonesian island of Leti and extending it to the southernmost boundary of the Zone of Co-operation.¹³⁹

The Treaty was entered into for an initial term of forty years, with provision being made for successive terms of twenty years, unless by the end of each term, including the initial term of forty years, the contracting states had concluded an agreement on the permanent delimitation of the continental shelf between Australia and East Timor—a seabed treaty.¹⁴⁰

Portugal registered an immediate protest against the Treaty, recalling its ambassador from Canberra for consultations. Foreign Minister João de Deus Pinheiro issued a statement in Lisbon declaring the Treaty 'a clear and flagrant violation of international law and the United Nations Charter'. Not only was it a violation 'of the legitimate right of the Timorese people to self-determination and sovereignty over its own resources, but it also disrespects Portugal's status in the matter', the statement said. Dr Deus Pinheiro said that Portugal would be prepared to take the matter to the International Court of Justice.¹⁴¹

East Timorese resistance spokesman José Ramos Horta wrote in October 1990 concerning the Treaty:

139 'In the Matter of East Timor's Maritime Boundaries Opinion', by Vaughan Lowe, Chichele Professor of Public International Law, Oxford University; Barrister, Essex Court Chambers, London, Christopher Carleton, Head, Law of the Sea Division, UK Hydrographic Office, Christopher Ward, Barrister-at-Law, Wentworth Chambers, Australia, 11 April 2002, http://www.gat.com/Timor_Site/lglop.html

140 Attorney-General's Department, submission no.65, p.2.

141 'Ambassador recalled as Timor treaty protest', *The Canberra Times*, 14 December 1989.

Australian oil companies would be well advised not to jump into the Timor Gap area. A future government of an independent East Timor would certainly review all oil exploration agreements in the area and will not be bound by any agreement signed by third parties. Australian oil companies that join in the violation of the Timorese maritime resources might see their licences revoked and the exploration and drilling rights transferred to American companies such as Oceanic Exploration of Denver, Colorado. A good advice to Australian business: wait and see how things develop in the next 5 to 10 years.¹⁴²

A letter to Prime Minister Hawke from Xanana Gusmão, the leader of the Timorese Resistance, was passed to an Australian Parliamentary delegation which was visiting East Timor in early February 1991. The letter condemned the Treaty as 'a total betrayal' by Australia of the Timorese people.¹⁴³ The letter reinforced the point Gusmão had made previously in an interview broadcast on ABC Radio National:

Australia has been an accomplice in the genocide perpetrated by the occupation forces, because the interests which Australia wanted to secure with the annexation of East Timor to Indonesia are so evident. The best proof is the Timor Gap Agreement.¹⁴⁴

Richard Woolcott sought to refute the charge that Timorese blood had been sacrificed so that Australia could benefit from any oil in the Timor Gap which rightly belonged to the East Timorese by writing in March 1997: 'The fact is, however, that the northern boundary of the Zone of Co-operation established under the treaty is based on Australia's long-held claim to this area of the seabed'.¹⁴⁵ He seemed unaware that this claim had been established in the first place, in the form of the MacKay Line, to secure the resources of the seabed for Australia.¹⁴⁶

The Timor Gap Zone of Cooperation Treaty entered into effect in February 1991. On 9 February, the inaugural meeting of the Ministerial Council established under the Treaty was held in Denpasar, Bali. Addressing the meeting, Senator Evans said the Treaty would lead to new areas of cooperation between Australia and Indonesia, mentioning in particular practical arrangements to cooperate in relation to security and terrorism, and for surveillance measures in the Zone of Cooperation.

Petrotimor, the subsidiary of Oceanic Exploration which had been granted an exploration concession in the Timor Sea by the Portuguese administration in 1974, was invited by the joint Indonesian-Australian authorities along with several other companies to bid for exploration permits for the Timor Sea after the Timor Gap Treaty was finalised. The company refused to bid, arguing that it already held a claim to much of the Zone A area where several promising oil and gas discoveries were subsequently made by other companies, including those forming the basis of the \$1.6 billion Bayu-Undan gas project developed by Phillips Petroleum.¹⁴⁷

142 Sasha Stepan, *Credibility Gap*, ACFOA Development Dossier No.28, October 1990, Preface p.iv.

143 'Oil treaty to bring "era of cooperation"', *The Canberra Times*, 10 October 1991; *House of Representatives Hansard*, 10 October 1991, p.1748.

144 Robert Domm, 'Report From The Mountains Of East Timor', *Background Briefing*, 28 October 1990.

145 Richard Woolcott, 'Fixed Relations', *The Australian*, 15-16 March 1997.

146 Peter Hastings, 'Whose Riches Under The Sea?', *The Sydney Morning Herald*, 3 June 1972.

147 Jane Counsel, 'Americans threaten to derail Timor oil talks', *The Sydney Morning Herald*, 26 June 2001.

Soon after the ratification of the Treaty, Portugal notified Australia that an action would be brought against it in the International Court of Justice. The Portuguese Ambassador to Australia, José Luiz Gomez, said on 25 February the ICJ action was linked to Australia's recognition of Indonesia's sovereignty over East Timor, and aimed at forcing Australia to recognise East Timor as a non-self-governing territory under Portuguese administration.¹⁴⁸

Paul Keating succeeded Bob Hawke as Prime Minister in December 1991. The Keating Government faced the task of responding to the consequences of the Dili massacre which had occurred on 12 November, when a large number of unarmed Timorese civilians had been killed by Indonesian military during a funeral at the Santa Cruz cemetery. By 11 December, Foreign Minister Evans was using the formula that had been arrived at to define the Government's response to the massacre. He said in answer to a question he had been asked in the Senate that the Government did not believe what had happened in Dili, 'deplorable as it was, was something that could be construed as an act of state: a calculated or deliberate act of the Government as such'. It was not an act of state but 'the product of aberrant behaviour by a subgroup within the country,' and therefore did not justify a change in policy that would involve a refusal to sign an agreement with Indonesia to award Timor Gap production sharing contracts to oil exploration companies.¹⁴⁹ The agreement was signed on 11 December by the Minister for Resources, Alan Griffiths, and Indonesia's Minister for Mines, Ginandjar Kartasasmita, at what was announced, to avoid protesters, as an 'undisclosed location' (in fact, it was Cairns).¹⁵⁰ Mr Griffiths reiterated during the meeting at which the agreement was signed that the Australian Government 'was deeply concerned by the recent killings in Dili', and that it had condemned the killings in strong terms and had called on the Indonesian Government to conduct a credible inquiry and punish any wrongdoers.¹⁵¹

The agreement brought forth a further protest from Portugal. A note delivered by the Portuguese Embassy in Canberra stated that the signing of the agreement aggravated Portugal's dispute with Australia over East Timor. It 'confirmed and worsened' the illicit nature of the facts denounced by Portugal in its application to the International Court of Justice. It occurred at a time of increased criticism and condemnation of Indonesia's 'brutal and repressive' policy toward East Timor.¹⁵² Foreign Minister João de Deus Pinheiro said in Lisbon that Portugal would 'take action and ask for compensation'. He said Indonesia and Portugal must resolve the East Timor question through United Nations supervised negotiations: 'I hope the Indonesian Government will leave the military solution behind and be willing to negotiate'.¹⁵³

148 David Lague, 'Portugal sues over Timor treaty', *The Australian Financial Review*, 26 February 1991.

149 *Senate Hansard*, 11 December 1991, p.4618.

150 David Lague, 'Timor oil deal signed', *The Australian Financial Review*, 12 December 1991.

151 John Loizou, 'Secret talks herald oil boom', *Sunday Territorian*, 15 December 1991.

152 Robert Garran, 'Portugal slams Timor oil pact', *The Australian Financial Review*, 19 December 1991.

153 'Portugal to take issue on Timor oil', *The Canberra Times*, 17 December 1991. Soon after this, the Keating Government took the decision to close the Australian embassy in Lisbon, as a 'cost-cutting' measure. The embassy was re-opened by the Howard Government in April 2000 (Minister for Foreign Affairs, Alexander Downer, 'Diplomatic Appointment—Ambassador to Portugal', media release, 26 April 2000).

Decision of the International Court of Justice

In putting Australia's case to the International Court of Justice at a hearing on 6 February 1995, The Hon. Michael Tate, Australia's Ambassador to The Hague, stated: 'It remains the firm policy of the Australian Government that the people of the territory should exercise freely and effectively their right to self-determination'.¹⁵⁴

The International Court made its decision on the case brought by Portugal in June 1995, when it found that because 'the very subject matter' of the case related to the rights and obligations of a third State, namely Indonesia which did not recognise the jurisdiction of the Court, it could not adjudicate on the dispute. Therefore, it could not rule on the merits of the case, 'whatever the importance of the questions raised by those claims and the rules of international law which they bring into play'.¹⁵⁵ Foreign Minister Evans commented on the Court's decision on 30 June:

It is difficult to see how Portugal's action could have assisted the East Timorese people. The Indonesian Government, which is in control of the territory, could not have been bound by it. For Australia's part, we will continue our substantial program of development assistance to the people of East Timor, and continue to make every diplomatic effort we can to improve the human rights situation there.¹⁵⁶

Portugal took comfort from the Court's observation that the right of peoples to self-determination was 'irreproachable' in international law and usage, and that consequently 'the Territory of East Timor remains a non-self-governing territory and its people has the right to self-determination'.¹⁵⁷ Portugal saw no reason in the Court's decision to change its view of the Treaty as an infringement of the rights of the people of East Timor and of Portugal's status as the territory's administering power recognised by the United Nations. On these grounds Portugal lodged a protest on 28 August 1997 against the subsequent Australian agreement with Indonesia on demarcation of respective exclusive economic zones in the Timor Gap.¹⁵⁸

1997 Delimitation Treaty

The Delimitation Treaty between Indonesia and Australia, signed in Perth on 14 March 1997 by Foreign Ministers Alexander Downer and Ali Alatas, was a treaty which was intended to complete the negotiation of maritime boundaries between Australia and Indonesia. The Treaty delimited the exclusive economic zone boundary between East Timor and Australia. The challenge to the Treaty circulated at the United Nations by Portugal on 2 September 1997 disputed the right of the Treaty to set a water-column line running through the Timor Gap, on the same grounds as Portugal's earlier challenge to the Timor Gap Treaty.¹⁵⁹ Although Richard Woolcott wrote at the time, 'The maritime treaty has yet to be ratified by the Australian and

154 Quoted in *The Australian Year Book of International Law*, vol.17, p.680.

155 Opinion of the International Court of Justice, *Case Concerning East Timor (Portugal v. Australia)*, 30 June 1995. General List No. 84, 30 June 1995 .

156 Quoted in *The Australian Year Book of International Law*, vol.17, p.683.

157 Opinion of the International Court of Justice, *Case Concerning East Timor (Portugal v. Australia)*, 30 June 1995. General List No. 84, 30 June 1995 .

158 'Portugal denounces new Australia-Indonesia agreement on exclusive economic zone in East Timor', *Lusa*, 11 September 1997.

159 'Australia's sea boundary challenged', *ABC News*, 2 September 1997.

Indonesian parliaments but I do not anticipate any problems with this process',¹⁶⁰ ratification had not been achieved before East Timor secured its independence from Indonesia in 1999.

After the signing of the Timor Gap Treaty, there was an active exploration program within the Zone of Cooperation which involved the drilling of forty-two wells. The successful exploration program resulted in the discovery of hydrocarbons in thirty-six of the wells and the identification in Area A of about 400 million barrels of condensate and LPG and three trillion cubic feet of gas. These resources were discovered in some medium to small oilfields, including at Elang-Kakatua and Jahal, and some large gas fields at Bayu-Undan and Sunrise Troubadour.¹⁶¹ There was no exploration carried out in Area C, which was not seen as prospective, partly because of its depth, but also because of the geology of the area; because of its depth and the seismic movement in the Timor Trough it was a difficult area to work in. In Area B, the Australian area of jurisdiction, there was some exploration, both seismic and drilling of wells, but no hydrocarbons were found.¹⁶² Commencement of commercial production from the Elang-Kakatua field began in mid-1998 with a value of production to November 1999 of around \$250 million, returning to each contracting state around \$5 million in revenues from the production sharing arrangements.¹⁶³ The Elang Kakatua North oil fields have produced more than 24 million barrels of oil since 1998. These fields will close in the next few years just as the much larger Phillips-led venture starts producing liquids and then natural gas from its Bayu-Undan fields.¹⁶⁴

East Timor during the period of UNTAET

Following the vote of the people of East Timor for independence in the UN supervised referendum on 30 August 1999, the United Nations Transitional Administration for East Timor (UNTAET) was established on 25 October 1999 by Security Council resolution 1272. Resolution 1272 and the related report of the Secretary-General on the situation in East Timor provided the foundation for East Timor's transition to an independent state. UNTAET had overall authority for the administration of East Timor.¹⁶⁵ Under paragraph 35 of the UN Secretary-General's report, which was incorporated by specific reference into the Security Council resolution, the UN would 'conclude such international agreements with states and international organisations as may be necessary for the carrying out of the functions of UNTAET in East Timor'. This gave UNTAET a wide treaty making power, providing the basis for the UN to enter into an agreement with Australia to confirm the continued operation of the Treaty, and to negotiate a replacement treaty. The UN through UNTAET was Australia's treaty party until the independent state of East Timor emerged.¹⁶⁶ Resolution 1272 stressed the need for UNTAET to consult and cooperate closely with the East Timorese people in order to carry out its mandate, including the question of keeping the Treaty on foot.¹⁶⁷ The Secretary-General

160 Richard Woolcott, 'Fixed Relations', *The Australian*, 15-16 March 1997.

161 Mr Payne, *Committee Hansard*, 11 November 1999, p.873.

162 Mr Kjar, *Committee Hansard*, 11 November 1999, pp.87-9.

163 Mr Payne, *Committee Hansard*, 11 November 1999, p.873.

164 Michael Richardson, 'Battle lines drawn in fight for oil riches off East Timor', *International Herald Tribune*, 17 May 2002.

165 Mr Campbell, *Committee Hansard*, 11 November 1999, pp.869, 882.

166 Mr Michael Potts, *Committee Hansard*, 11 November 1999, p.872.

167 Mr Campbell, *Committee Hansard*, 11 November 1999, p.881.

nominated the transitional administrator, Sérgio Viera de Mello, who took up duties in East Timor on 16 November 1999.

The perception of the UN was that it was a trustee for the interim phase and that the Timorese needed to be associated at all levels of the administration. On 26 November 1999, agreement was reached between the East Timorese leadership and UNTAET to set up a National Consultative Council (NCC) that would determine policy during the transitional period.¹⁶⁸ The Council would assist UNTAET to hold national elections in East Timor for a constituent assembly to write a new constitution, and to constitute the first government which would lead East Timor into actual independence.¹⁶⁹ Over the duration of UNTAET, the East Timorese came to be associated more and more with it in the administration.¹⁷⁰ A further stage in this process was reached when on 14 July 2000 the NCC approved regulations by which it was replaced by a National Council of 33 East Timorese members selected from the political, religious and private sectors, and establishing a Cabinet of the East Timor Transitional Administration (ETTA), consisting of four East Timorese and four UNTAET members.¹⁷¹

The Australian Government developed and implemented a strategy aimed at ensuring the smooth transition of the Timor Gap Treaty. Following the moves towards East Timorese independence, officers from the departments of Foreign Affairs and Trade, Attorney-General's, and Industry, Science and Resources liaised with officials from the United Nations and East Timorese representatives and consulted with the petroleum industry to enable a smooth transition of operations under the Treaty. Transition arrangements needed to cover issues such as the location of the headquarters of the Joint Authority, originally in Jakarta, subsequently moved to Darwin; appointment by the United Nations of appropriate representatives on the Ministerial Council and of people to participate on the Joint Authority; and the status of the existing production sharing contracts as well as the existing regulations, directions and other matters resolved to date by the Ministerial Council and the Joint Authority.¹⁷²

The Australian Government also had discussions with East Timorese representatives, particularly Xanana Gusmão, José Ramos Horta, and the spokesman on Timor Gap matters, Mari Alkatiri. They confirmed both publicly and in discussion with Foreign Minister Downer and Australian officials their willingness to see the Treaty continue in its current form. The United Nations indicated a similar view. The Department of Foreign Affairs and Trade consulted closely with industry, ensuring that their views were taken into account in the government strategy.¹⁷³ In the meantime the Joint Authority arrangements continued on a business as usual basis. Revenues continued to be paid to Indonesia until February 2000, regardless of the vote on 19 October 1999 of the Indonesian People's Consultative Assembly (MPR) to

168 Sérgio Viera de Mello, UNTAET Administrator, *Lusa*, 26 November 1999; Ian Timberlake, 'UN administration lays groundwork for governing East Timor', *Agence France-Presse*, 27 November 1999.

169 The constitution of the Democratic Republic of East Timor, proclaimed on 28 November 1978, was suspended in 1984. (Jill Jolliffe, 'Fretilin drops demand', *The Age*, 7 November 1984).

170 Mr Michael Potts, *Committee Hansard*, 11 November 1999, p.880.

171 UNTAET daily briefings, 12, 13, 14 and 17 July 2000; SRSG Sérgio Viera de Mello's press briefing of 15 July 2000.

172 Mr Payne, *Committee Hansard*, 11 November 1999, p.874.

173 Mr Michael Potts, *Committee Hansard*, 11 November 1999, p.871-2.

formally renounce Indonesian sovereignty over East Timor. The Joint Authority held an executive board meeting on 9 November 1999 in Jakarta at which several important issues were addressed, including matters relating to the Bayu-Undan project. Industry confidence in the continued workability of the Treaty under the transitional arrangements was demonstrated by the decision on 25 October 1999 by the Bayu-Undan consortium to proceed with their major liquids extraction project.¹⁷⁴

Bayu-Undan Liquids Recovery and Gas Recycle Project

The Bayu-Undan field, which is being developed at a cost of about \$3 billion, contains estimated reserves of 400 million barrels of condensate and liquefied petroleum gas and 96.3 billion cubic meters (3.4 trillion cubic feet) of gas.¹⁷⁵ A consortium led by Ohio-based Phillips Petroleum announced on 25 October 1999 that it would proceed with the first stage of the development of the Bayu-Undan field, in Area A of the Timor Gap Zone of Cooperation. This would involve the extraction of gas, stripping of the condensate and LPG liquids from the gas, and re-injection of the dry gas. The project would involve a capital expenditure of around \$US1.6 billion. It would provide significant employment opportunities to Australians and East Timorese. The press release that Phillips put out announcing their decision to proceed with Bayu-Undan made a reference their to having had substantive and encouraging discussions with all relevant parties involved in East Timor's transition to independence.¹⁷⁶ They had received a letter signed by Xanana Gusmão, José Ramos Horta and Mari Alkatiri, saying the East Timorese would honour Timor Gap petroleum zone arrangements.¹⁷⁷ Phillips' Australian area manager, Jim Godlove, said that revenues of 'many tens of millions of US dollars' a year were likely to flow to both Australia and East Timor.¹⁷⁸

It is not possible to predict with certainty the likely revenues to flow to East Timor and Australia from the Bayu-Undan project. The actual revenues received will depend on the oil and gas prices received from the project. These prices are highly variable. Production rates tend to peak in the first few years of a liquids project and then decline, while gas projects have a relatively flat production profile related to the requirements of their gas customers and the timing with which the various phases of the project come on stream.¹⁷⁹ The likely income flow is subject to a range of difficult to predict factors, particularly the oil price, which will determine the price at which liquids and gas from Bayu-Undan could be sold, and the different start-up dates for the phases of the project. Given those uncertainties, the prospective income stream is, as Mr Godlove said, in the order of several tens of millions of dollars annually for over a decade from 2004. That would represent a significant proportion of East Timorese GDP.¹⁸⁰

Santos Ltd, which held an 11.8 per cent share of the Bayu-Undan gas project, confirmed on 18 November 1999 that it had opted to participate in the project.¹⁸¹ Santos was the last of the six partners in the project to publicly confirm its continuing

174 Mr Payne, *Committee Hansard*, 11 November 1999, p.874.

175 Michael Richardson, 'Battle lines drawn in fight for oil riches off East Timor', *International Herald Tribune*, 17 May 2002.

176 Mr Payne, *Committee Hansard*, 11 November 1999, p.885.

177 Paul Tait, 'East Timor backs gas project but warns on treaty', *Reuters*, 10 November 1999

178 Mr Godlove, *Committee Hansard*, 8 September 1999, p. 421.

179 Mr Payne, *Committee Hansard*, 11 November 1999, p.873-4

180 Mr Michael Potts, *Committee Hansard*, 11 November 1999, p.871.

181 Mr Ross Adler, Managing Director, Santos Ltd, *Asia Pulse*, 18 November 1999.

participation, opening the way for the development plan to be submitted to the Joint Authority for final approval.¹⁸² The United Nations Transitional Administrator in East Timor, Sérgio Vieira de Mello, and the Australian Minister for Industry, Science and Resources, Senator Nick Minchin, announced on 28 February 2000 that approval had been given by the Joint Authority for the first phase of the Bayu-Undan petroleum project in Area A of the Timor Gap Zone of Co-operation.¹⁸³ The project was expected to produce 110,000 barrels of condensate and LPG from 2004. The second stage of the project proposed construction of a gas pipeline to a LNG production facility in Darwin, which would then sell the product to overseas customers.¹⁸⁴

The far-reaching scale of the project was indicated by developments on Baja California's Pacific coast, where energy firms joined to develop the area into a major receiving port for the importation of liquefied natural gas (LNG). The companies hoped to use Baja California for supplying gas to southern California, where demand for energy had been increasing. Phillips Petroleum intended to form a joint venture with Houston-based El Paso Corporation to ship LNG from gas fields in the Timor Sea to the Mexican city of Rosarito. A subsidiary of Royal Dutch/Shell Group, Shell Gas & Power, unveiled plans on 27 March 2002 to transport LNG to a 'regasification' facility on Baja California, expected to be on stream by 2006.¹⁸⁵ Royal Dutch/Shell was in partnership with Phillips and Woodside Petroleum of Australia in the other large project in the Timor Sea, the estimated \$30 billion Greater Sunrise oil and gas field development.

Indonesia's interest subsequent to its renunciation of sovereignty

On 10 February 2000, diplomatic notes were exchanged in Dili by the UN Transitional Administrator, Sérgio Viera de Mello, and Australia's representative in East Timor, James Batley, to give effect to a new agreement whereby UNTAET replaced Indonesia as Australia's partner in the Treaty. Under the agreement, which was negotiated in close consultation with East Timorese representatives, the terms of the Treaty would continue to apply. In talks in Jakarta preceding the agreement, Indonesian representatives had agreed that following the separation of East Timor from Indonesia, the area covered by the Treaty was now outside Indonesia's jurisdiction and that the Treaty ceased to be in force as between Australia and Indonesia when Indonesian authority over East Timor transferred to the United Nations.¹⁸⁶ This position was formalised for Australia by the *Timor Gap Treaty (Transitional Arrangements) Act 2000*.

The Zone of Cooperation established by the 1989 Australia-Indonesia Timor Gap Treaty was intended to be referable only to the coast of East Timor and the opposite coastline of Australia, and not to any other territory under Indonesian jurisdiction. The term 'Timor Gap' refers to the gap left in the 1972 seabed boundary agreement with Indonesia between what are referred to as points A16 and A17 in that

182 The partners were: Phillips Petroleum Company, 50.29%, Santos Ltd, 11.83%, Inpex, 11.71%, Kerr McGee Corporation, 11.2%, Petroz NL, 8.26%, British Borneo, 6.72%.

183 Senator Nick Minchin, 'World Scale Petroleum Project for Timor Sea', Media Release 00/49, 28 February 2000. The Timor Gap Zone of Cooperation was replaced by the Joint Petroleum Development Area (JPDA) following the July 2001 agreement between Australia and East Timor.

184 *Asia Pulse*, 18 November 1999.

185 'Oil firms see Baja as door to California', *The Wall Street Journal*, 28 March 2002.

186 Minister for Foreign Affairs and Minister for Industry, Science and Resources Joint Media Release, 10 February 2000.

agreement, to take account of the then Portuguese responsibility for East Timor. Indonesia's remaining legal interest in the location of the boundaries of the Zone following the movement of East Timor out of Indonesian sovereignty relates to points A16 and A17.¹⁸⁷ These points are at the eastern and western extremities of the Timor Gap Joint Petroleum Development Area (the former Zone of Cooperation Area A). Points A16 and A17 (at 9°28' South and 127°56' East, and 10°28' South and 126° East) are the points at which the Australia-Indonesia seabed boundary joins the JPDA (the Zone of Cooperation under the 1989 treaty) on each side. It is those two points, termed *tripoints* or *tri-junction points*, where the interests of Australia, independent East Timor and Indonesia would meet, and it is in the location of those points where Indonesia has a continuing interest.¹⁸⁸ The 1972 seabed treaty noted in Article 3 that the lines connecting points A15 and A16 and points A17 and A18 identified in the treaty indicated the direction of the boundary and that negotiations with other governments that claimed sovereign rights to the seabed (then Portugal, now East Timor) might require adjustments to points A16 and A17.¹⁸⁹

The two tripoints, A16 and A17, are closer to the island of Timor than the mid-points between the island and Australia. In 1972, Indonesia conceded the Australian contention that the seabed boundary between the two countries should lie along the deepest part of the seabed, the Timor Trough, to the extent that the seabed boundary agreed at that time followed a line mid-way between the line preferred by Australia and the line preferred by Indonesia. Negotiations on a seabed treaty with Portugal failed at that time because Portugal argued for a boundary along the mid-line between Australia and Portuguese Timor.¹⁹⁰ On two occasions subsequent to the 1972 seabed boundary agreement Indonesia accepted points A16 and A17 as being reasonable and in the proper location: first, in the negotiation of the 1989 Timor Gap Treaty, where it continued to recognise those points; and secondly, it recognised those points in the 1997 agreement between Australia and Indonesia establishing an exclusive economic zone boundary and certain seabed boundaries.¹⁹¹

If the line of equidistance was adopted as the basis for delimitation purposes in a seabed boundary between Australia and East Timor, the Joint Petroleum Development Area would be located in East Timorese territory. It could also have implications for the boundary between Australia and Indonesia as the new Australia-East Timor boundary would be south of the two tripoints marking the Timor Gap in the Australia-Indonesia boundary. Indonesia might be prompted to seek re-negotiation of its seabed boundary with Australia.¹⁹² Dr Gillian Triggs, Associate Dean of the University of Melbourne's Law Faculty, has commented: "There is no doubt Indonesia

187 Mr Campbell, *Committee Hansard*, 11 November 1999, p.869.

188 Mr Campbell, *Committee Hansard*, 11 November 1999, p.870.

189 Department of Foreign Affairs, *Agreement between... Australia and... Indonesia Establishing Certain Seabed Boundaries*, Treaty Series 1973, No.31.

190 J.R.V. Prescott, 'The Australian-Indonesian Continental Shelf Agreements', *Australia's Neighbours*, vol.82, September-October 1972, pp.1-2. Richard Ackland, 'Aust tough stance on Timor sea border', *The Australian Financial Review*, 20 July 1973. Brian Toohey, 'Oil: Portuguese tail-twisting could backfire', *The Australian Financial Review*, 26 March 1974; 'Canberra, Lisbon head for row', *The Age*, 26 March 1974; 'Australia calls for report on oil leases', *The Sydney Morning Herald*, 14 December 1974. Portuguese Ambassador Carlos Empis Wemans to Lisbon, 25 March 1974, Cour internationale de justice, *Affaire relative au Timor oriental (Portugal c. Australie): mémoire du gouvernement de la république Portugaise*, La Haye, 1991, Annexe IV.9, pp. 321-3.

191 Mr Campbell, *Committee Hansard*, 11 November 1999, p.870.

192 Michael Richardson, 'Oil Reserves are Sensitive Independence Issue', *International Herald Tribune*, 15 December 1999.

will feel quite aggrieved if we have unequal boundaries in certain areas with Indonesia and we suddenly blow the boundary out and make a more equidistant one in relation to East Timor'.¹⁹³

Position of the East Timorese

A CNRT *Statement on Timor Gap Oil* dated 22 July 1998, signed by José Ramos Horta, Mari Alkatiri and João Carrascalão, said:

The National Council of Timorese Resistance will endeavour to show the Australian Government and the Timor Gap contractors that their commercial interests will not be adversely affected by East Timorese self-determination. The CNRT supports the rights of the existing Timor Gap contractors and those of the Australian Government to jointly develop East Timor's offshore oil reserves in cooperation with the people of East Timor.

At his first meeting with Foreign Minister Downer on 23 February 1999 while still in Indonesian custody, Xanana Gusmão said that an independent East Timor would honour the Timor Gap Treaty and would be happy to share the resources of the Timor Sea on an equitable basis with Australia. East Timor would expect to take over Indonesia's obligations under the Treaty.¹⁹⁴

The East Timorese spokesman on Timor Gap matters, Mari Alkatiri, stated on 10 November 1999 in reference to the letter signed by Xanana Gusmão, José Ramos Horta and himself sent to Phillips Petroleum giving an assurance that they would honour the Treaty arrangements:

Yes, it was sent... but that doesn't mean we have already accepted the Treaty as it is. It's not a problem of oil and gas, it's a problem of maritime borders... I think we have to redefine, renegotiate the border later on when East Timor becomes independent.¹⁹⁵

In a further statement in Jakarta on 29 November 1999, Mr Alkatiri said:

We still consider the Timor Gap Treaty an illegal treaty. This is a point of principle. We are not going to be a successor to an illegal treaty.

Mr Alkatiri said the East Timorese were willing to make transitional arrangements so that existing operators could continue their projects, and referred to negotiations that were under way between the United Nations, Portugal and Australia to sort out intermediate arrangements.¹⁹⁶

José Ramos Horta declared on 7 May 2000 that East Timor was entitled to up to 90 per cent of the revenues:

What I'm saying is that so far we are happy to continue to live with the terms of the agreement for the next year or two or three years. However at

193 Wendy Pugh, 'Australia seeks to avoid East Timor border dispute', *Reuters*, 6 October 2000.

194 Greg Earl, 'Gusmao assures Gap treaty is safe', *The Australian Financial Review*, 27 February 1999.

195 Paul Tait, 'East Timor backs gas project but warns on treaty', *Reuters*, 10 November 1999.

196 Karen Polglaze, 'Future of Timor Gap Treaty thrown into doubt', *Australian Associated Press*, 29 November, *The Sydney Morning Herald*, 30 November 1999.

the same time we must begin negotiations to review some of the terms... For instance if you look into the Timor Sea map and if you notice where the gas and oil findings are located, I would dare to say that up to 90 per cent of the revenues from there could go to East Timor if we have a fair deal.¹⁹⁷

In Canberra on 15 June 2000, Mr Alkatiri announced CNRT policy on the Treaty. The CNRT would be seeking, prior to UNTAET relinquishing its mandate, a new seabed boundary drawn an equal distance between East Timor and Australia as the starting point for negotiations on a new oil and gas revenue-sharing agreement. He said:

We are not thinking of renegotiation but a new treaty. Of course, some of the terms will be the same but the starting point needs to be the drawing of a maritime boundary between our countries and that means the Treaty would not have any effect any more.¹⁹⁸

Mr Alkatiri was visiting Canberra as part of an UNTAET team to negotiate with Australia on a new treaty. Another member of the team, UNTAET's Director of Political Affairs Peter Galbraith, made a statement following the talks, saying:

What UNTAET seeks is what the East Timorese seek. The East Timorese leadership has made it clear that the critical issue for them is to maximise the revenues of the Timor Gap. The legal situation is this: UNTAET has to continue the terms, but only the terms of the old Timor Gap Treaty and only until independence. Therefore a new regime will have to be in place on the date of independence.¹⁹⁹

The Australian Government's position was stated by a spokesman for Foreign Minister Alexander Downer on 11 July 2000, who said that Australia 'understands the discussion or debate is about the share of revenue; it's not delimitation of the seabed'.²⁰⁰

The Australian Opposition defined its policy in a resolution moved by Foreign Affairs Shadow Minister Laurie Brereton at the Australian Labor Party National Conference on 3 August 2000. The resolution stated:

Labor is prepared to support the negotiation and conclusion of a permanent maritime boundary in the Timor Gap based on lines of equidistance between Australia and East Timor. Such a settlement would see major gas and petroleum reserves within East Timor's maritime boundaries and would be a just outcome consistent with the Law of the Sea.²⁰¹

Speaking at a CNRT congress in Dili on 26 August 2000, Dr Alkatiri said East Timor wanted its maritime boundary with Australia to be equidistant between the two countries, which would put all the current oil and gas activity in the Timor Gap on

197 *Background Briefing*, 7 May 2000.

198 Peter Alford and Robert Garran, 'East Timor wants new gap treaty', *The Australian*, 15 June 2000; Rod McGuirk, 'Downer stresses need for stability in Timor Gap', *AAP*, 15 June 2000.

199 Mark Dodd, 'Timor Gap deal set to deliver windfall for Dili', *The Sydney Morning Herald*, 21 June 2000.

200 Ray Brindal, 'Australia says revenue, not border, focus of Timor talks', *Dow Jones Newswires*, 14 July 2000.

201 Laurie Brereton, 'Labor Party policy on the future of the Timor Gap', media release, 3 August 2000.

East Timor's side. He stressed the need for a new legal instrument so as not to retroactively legitimise the 1989 Treaty: 'We refuse to accept that East Timor be the successor to Indonesia to the Treaty'.²⁰² Mr Galbraith said in a radio interview on 10 October 2000:

UNTAET's position, acting on behalf of the East Timorese people, is that the royalties and the tax revenue from the area north of the mid-point should come to East Timor, and if there is not going to be a maritime delimitation East Timor, however, should have the same benefit as if there were a maritime delimitation. That, after all is what East Timor is entitled to under international law.²⁰³

In the same interview, Mr Galbraith said that any state, including the independent country of East Timor, had the option of going to the International Court of Justice to seek a maritime delimitation. 'Hopefully', he said, 'it won't come to that because an agreement acceptable to the East Timorese will be negotiated and in place by independence'.

Australian Democrats' spokesperson on foreign affairs, Senator Vicki Bourne commented on 9 October 2000 on the commencement of negotiations for a new Timor Gap Treaty. 'East Timorese political leaders have signalled that they want a 90:10 split in revenue. I think this is a reasonable split and reflects the location of the resources which, should the International Law of the Sea be invoked, would lie squarely within East Timor's zone'.²⁰⁴

Negotiations with UNTAET/ETTA

On 18 September 2000, Foreign Minister Alexander Downer, Resources Minister Nick Minchin and Attorney General Daryl Williams announced that Australian officials would travel to Dili for a preliminary round of negotiations over three days from 9 October with UNTAET and East Timorese representatives on rights for future exploration and exploitation for petroleum in the Timor Gap. The ministers said the aim of the talks was to reach agreement on a replacement for the Timor Gap Treaty to enter into force on East Timor's independence. 'Australia currently has an agreement with UNTAET which provides for the continued operation of the terms of the Timor Gap Treaty originally negotiated with Indonesia', they said. 'It will expire on the date East Timor becomes independent.' The Ministers said it was necessary to avoid a legal vacuum and to provide commercial certainty for the petroleum industry operating in the gap: 'The eventual export of petroleum by pipeline from the Timor Gap to Darwin would bring considerable benefits in terms of Australian regional development. It is very important that there is a seamless transition of arrangements governing petroleum exploitation in the Timor Gap'.²⁰⁵

In its response on 5 April 2001 to the December 2000 report on East Timor of the Senate Foreign Affairs, Defence and Trade Committee, the Australian

202 'Dili & Canberra to begin sea boundary talks in October', *Kyodo*, 28 August 2000; 'East Timor: Oil Negotiations with Australia to begin in October', *Lusa*, 28 August 2000.

203 *Asia Pacific*, 10 October 2000.

204 Senator Vicki Bourne, 'Democrats support 90/10 split of Timor Gap resources', media release, 9 October 2000.

205 Minister for Foreign Affairs, 'Timor Gap Treaty Negotiations to Begin', media release, 18 September 2000; 'Renegotiation of Timor Gap treaty to begin', *AAP*, 18 September 2000.

Government reaffirmed the position held since William McMahon's statement in the House of Representatives of 30 October 1970:

It remains the Government's position that, under international law, Australia's seabed rights extend from its coastline throughout the natural prolongation of its continental shelf to the deepest part of the Timor Trough. East Timor has a different position. Under international law, it is for both parties to work to achieve an equitable solution.²⁰⁶

East Timor Cabinet Member for Economic Affairs Mari Alkatiri and Cabinet Member for Political Affairs and Timor Sea Peter Galbraith jointly led the UNTAET/ETTA delegation at the second round of talks on the Timor Sea in Melbourne on 4-6 April 2001. The talks failed to secure agreement on the location of the boundary. Speaking to the media upon his return to East Timor, Alkatiri described the talks as a 'setback'. He said that UNTAET/ETTA's position on the Timor Sea was that if East Timor would apply current international law, one hundred per cent of the resources of the cooperation zone would belong to East Timor. 'But since there is an overlapping of claims, international law advises that a solution be found through negotiations', he said. Alkatiri said on 12 April 2001 that UNTAET and the East Timor Transitional Administration were 'flexible in the Timor Sea negotiations', but that the strength of East Timor, being a small country, was international law.²⁰⁷

In a speech on 9 April 2001 to an Australian Petroleum Production and Exploration Association annual meeting in Hobart, Peter Galbraith said without a treaty based on international law, East Timorese were prepared to wait patiently for their rights and risk losing important markets. East Timorese negotiators could not return with a treaty 'that would give East Timor less economic benefit than that which it is entitled under international law', he said.²⁰⁸

Mr Galbraith may have had in mind East Timor's need for time to be able to build up its political and administrative institutions to avoid the hazards of oil-dependent development and resource abundance. Resource abundance and dependence are consistently and persuasively associated with low levels of economic and human development, the aggravation of social tensions, poor governance and an increased likelihood of conflict: rapid capital inflows appreciate the exchange rate, erode the competitiveness of industries subject to international competition, promote current-account deficits, accelerate inflation, distort investment and link the economy to volatile commodity markets. Thus, rather than generating prosperity, booming resource revenues can have the perverse effect of stunting broad-based, sustainable development. Narrow, oil-led growth also tends to exacerbate social cleavages. Resource dependence often generates income inequality. Resource-rich communities

206 *Senate Hansard*, 5 April 2001. Professor Gordon Lister, Director of the Australian Crustal Research Centre at Monash University, was reported in June 2001 as commenting with regard to the tectonic movements along the line of impact between north-west Australia and the Sunda archipelago that the geological trend was for Timor to be ultimately absorbed by the Australian continent: 'Timor is pretty well on board now, it'll be further on board as time goes by. As Java rides over the Australian plate it will push the sediments up, and that's why we have oil in the Timor Gap now' (Simon Grose, 'Australia adrift in global shift', *The Canberra Times*, 8 June 2001).

207 'According To Cabinet Member, "East Timor Flexible On Timor Sea"', *UNTAET News Briefing*, Dili, 12 April 2001.

208 'Australia, E Timor To Resume Timor Gap Treaty Talks In May', *Dow Jones Newswires*, 11 April 2001.

almost invariably have lower levels of social capital. Rising expectations for the better days of 'black gold' are seldom met. In politics, the corrupting effects of rentier economics perverts governance as elites succumb to paternalism. Even where intentions remain pure and structures exist to promote the transparent use of revenues, public pressures link government spending to the highest commodity prices: when these fall, governments run deficits and incur mounting debt. World Bank research has linked resource dependence to violent conflict. States dependent on commodity exports with large numbers of unemployed young males and low levels of education—all prominent in East Timor—are especially conflict-prone. East Timor's capacity to manage the risks could be enhanced by policies such as: long-term planning to determine the allocation of future surplus; a stabilization fund to guard against commodity-price volatility; and support for the private sector, as well as investments with high social returns, particularly those in human capital and infrastructure. More important than prudent economic management is support for democratic, transparent and accountable governance. Capacity-building in public administration, promotion of the rule of law, entrenchment of norms against corruption and support for a robust civil society are all imperative.²⁰⁹

International Law

The 1982 Law of the Sea Convention, which entered into force in 1994, is not prescriptive about the basis for delimitation. Article 83 (1) reads:

The delimitation of the continental shelf between States with opposite or adjacent coasts shall be effected by agreement on the basis of international law, as referred to in Article 38 of the Statute of the International Court of Justice, in order to achieve an equitable solution.²¹⁰

Article 38 of the Statute of the International Court of Justice reads:

1. The Court, whose function is to decide in accordance with international law such disputes as are submitted to it, shall apply:
 - a. international conventions, whether general or particular, establishing rules expressly recognized by the contesting states;
 - b. international custom, as evidence of a general practice accepted as law;
 - c. the general principles of law recognized by civilized nations;
 - d. subject to the provisions of Article 59, judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.

209 Lee J.M. Seymour, 'East Timor's Resource Curse?', *Far Eastern Economic Review*, 30 November 2000.

210 Article 83 (1) in the Informal composite negotiating text, Document A/CONF.62/WP.10 of 15 July 1977 of the Law of the Sea Conference read: 'The delimitation of the continental shelf between adjacent or opposite States, shall be effected by agreement in accordance with equitable principles, employing where appropriate, the median or equidistant line, and taking account all the relevant circumstances'. The reference to the 'median or equidistant line' was omitted in the final version of the Convention. The 1977 draft was included as Appendix II in the report of the Joint Committee on Foreign Affairs and Defence, *Australia, Antarctica and the Law of the Sea, Interim Report*, 1978.

2. This provision shall not prejudice the power of the Court to decide a case *ex aequo et bono*, if the parties agree thereto.

The Latin term, '*ex aequo et bono*' may be translated 'in justice and fairness'. Something to be decided *ex aequo et bono* is something that is to be decided by principles of what is fair and just. Most legal cases are decided on the strict rule of law. For example, a contract will be normally upheld and enforced by the legal system no matter how 'unfair' it may prove to be. But a case to be decided *ex aequo et bono*, overrides the strict rule of law and requires instead a decision based on what is fair and just given the circumstances.²¹¹

Although the Law of the Sea Convention does not prescribe the median point for delimitation purposes, the median point is now generally accepted as the basis for delimitation. It should be noted that Australia adopted the median line in 1981 as the fisheries boundary, and in 1997 for the Australia-Indonesia Delimitation Treaty as it related to exclusive economic zones.

Petrotimor

On 21 June 2001, Petrotimor (owned 80 per cent by Colorado-based Oceanic Exploration and 20 per cent by East Timorese interests) presented the United Nations Transitional Administration in East Timor with its claim to own a concession over the sea bed resources granted by the Portuguese administration in 1974.²¹² UN administrator Sérgio Vieira de Mello reacted to the company's claim by issuing a memo forbidding UN employees to have contact with its staff.²¹³

Petrotimor's chief executive, Mr Charles Haas, said on 26 June 2001 the company planned to lodge a statement of claim in the Australian Federal Court seeking legal recognition of the 1974 exploration concession granted by Portugal. Mr Haas rejected accusations that the legal claim was a last-minute event staged to force a favourable outcome for East Timor in talks over a new Timor Sea treaty. He said the legal action came after the company had exhausted all other avenues trying to convince Indonesian and Australian authorities of the validity of their claim:

They have been trying to ignore us and hope we go away. But that's not what we intend to do. We intend to protect our rights—we have obligations to our shareholders. Australia owns the most prolific parts of the Timor Gap—they simply did not want to recognise that [Petrotimor's] ownership.²¹⁴

Petrotimor's action in the Federal Court against the Australian Government, Phillips Petroleum Company and the Timor Gap Joint Authority was launched on 22 August 2001.²¹⁵ It sought orders for compensation of up to \$2.85 billion in damages, a declaration that the Timor Gap Treaty was void and that all decisions by the Australian and Indonesian Joint Authority over the Timor Sea concerning the issue of production sharing contracts were invalid and of no effect. The action focussed on section 51(xxxi) of the Constitution, which states that the Commonwealth cannot

211 *The WWLIA Legal Dictionary*.

212 'US company claims rights to Timor Sea resources', *AAP*, 21 June 2001.

213 Gavin Lower, 'Timor Sea \$2bn compo claim', *The Australian*, 16 May 2002.

214 Jane Counsel, 'Americans threaten to derail Timor oil talks', *The Sydney Morning Herald*, 26 June 2001.

215 Jane Counsel, 'Damages bid hits Timor Gap talks', *The Sydney Morning Herald*, 23 August 2001.

‘acquire property other than by just means’. United Nations legal experts advising the East Timor Government said Petrotimor’s claim was unlikely to succeed. ‘Petrotimor is engaged in exploration by litigation’, one adviser said.²¹⁶ On 16 May 2002, the Commonwealth and Phillips Petroleum applied to the Federal Court to have Petrotimor’s case struck out, arguing it could not be heard in a domestic court because it involved international issues.²¹⁷

The July 2001 Interim Agreement

On 6 July 2001 Australia and East Timor signed an interim agreement to share the management and revenue from oil and gas production in the Timor Gap. Foreign Minister Alexander Downer said: ‘We have a quite clear national interest in ensuring as best we can that East Timor is a stable and prosperous society. There is no point in us taking a parsimonious approach to East Timor and plunging it into economic difficulties. It is in our interests to be generous to East Timor.’ East Timor negotiator Peter Galbraith commented that Australia would also benefit greatly, with an estimated \$80 billion in earnings over the two decades for downstream processing of gas at a major new plant to be built in Darwin.

The need for the agreement on petroleum production arose because Australia and East Timor could not reach agreement on a maritime boundary. Under the agreement they agreed to share the management and revenue from oil and gas production in an area of 75,000 sq km between East Timor and northern Australia, the area of disputed sovereignty. The agreement abolished the three zones that existed in the 1989 Timor Gap Treaty between Indonesia and Australia. In the 1989 treaty, revenue from the main, central zone was split evenly, but under the 2001 agreement revenue from 90 per cent of production in the whole zone would be paid to East Timor. Negotiators resolved the last outstanding issues in the week before the agreement was signed, including the tax and royalties that would be applied to companies operating in the area, and the split of royalties between the two sides. Industry was concerned that because 90 per cent of revenue would go to East Timor, the new agreement would expose companies to higher levels of taxation than under the earlier treaty with Indonesia.²¹⁸

The agreement gave an estimated \$7 billion to East Timor over 20 years and nearly \$1 billion to the Australian Government, down \$3 billion on the previous arrangement with Indonesia. Gas and oil in the Australia/East Timor Joint Petroleum Development Area was valued at \$22 billion. East Timor would also get royalties from 20 per cent of the adjoining \$27 billion dollar Greater Sunrise Field. Planned infrastructure worth more than \$6 billion included pipelines and gas processing facilities in the Northern Territory. Australia would give \$8 million a year to East Timor for petroleum-related industry projects.²¹⁹

At a news conference after the signing, Mr Galbraith described the negotiations as ‘surprisingly difficult’, and said it was the first time in UN history the world body had negotiated a bilateral treaty on behalf of another country: ‘This treaty

216 Michael Richardson, ‘Battle lines drawn in fight for oil riches off East Timor’, *International Herald Tribune*, 17 May 2002.

217 Gavin Lower, ‘Timor Sea \$2bn compo claim’, *The Australian*, 16 May 2002.

218 Robert Garran and Don Greenlees ‘Downer signs Gap deal with Dili’, *The Australian*, 6 July 2001.

219 Mark Dodd, ‘Oil deal sealed with champagne’, *The Sydney Morning Herald*, 6 July 2001.

will be one of the most important legacies of the transitional period'. Proceeds from the Timor Sea would not make East Timor a rich country but it would give it an escape from aid dependency if used wisely, he said.²²⁰

East Timor's Foreign Minister José Ramos Horta said in Sydney on 2 April 2002 he did not expect any problems to arise over the signing into treaty by an independent East Timor of the interim agreement reached with Australia in July 2001 to share oil and gas production in the Timor Sea. However, he brought up the possibility of later opening negotiations with Australia and Indonesia on the new country's maritime boundaries: 'We can open negotiations with Australia and Indonesia to redefine our maritime boundaries'. He said the treaty with Australia would nevertheless be ratified on or shortly after East Timor officially gained full independence 20 May 2002:

I hope...on May 20, or 21, or within days, that East Timor and Australia would sign the interim arrangements we have reached. I am the Foreign Secretary, and one of the sacred principles is you negotiate something in good faith, you sign it, you honour it. It would be very bad for East Timor's international standing if on day one of independence the very first thing we did as a major foreign policy act was to breach, fail to ratify, an international agreement that we had negotiated for two years between the United Nations and the Australian Government...Australia is still the main beneficiary, but we reached agreement in good faith with Australia and we must honour it.²²¹

In contrast to the willingness of the East Timorese leadership to sign a treaty on Independence Day, there was concern among civil groups and some members of parliament that the agreement had been pushed through too quickly and secretly. In March 2002, Petrotimor executives flew into Dili with international experts and invited East Timorese parliamentarians to attend two seminars. Neil Blue, chairman of Petrotimor, told East Timorese politicians it would finance an international legal challenge to redraw their country's seabed boundaries with Australia. He said: 'Petrotimor is prepared to fund that litigation. We have engaged the services of people who are major experts on the seabed issue.' Mr Blue said Timorese leaders should reconsider signing a new treaty on Timor Sea oil resources on East Timor's independence day on 20 May. He said that his company would take over the 10 per cent Australian share in the maritime investments if its bid was successful. Petrotimor proposed to proceed with separate plans to develop the Bayu-Undan gas fields by building a pipeline to gas processing facilities in East Timor.²²² Petrotimor's lawyer, Ron Nathans, said the proposed international litigation could cost 'between \$US3 million to \$US5 million' over several years. Politicians at the seminar included leaders of several opposition parties, who said they now felt UN administrators had deceived them.²²³ Interviewed on 15 May 2002, Eusebio Guterres, East Timorese Democratic Party MP, said twenty-six members of parliament—representing his own party, the Socialist Democratic Party, KOTA, UDT, PPT, PDC and some dissenting Fretilin Party members—did not want the agreement to be signed on 20 May. Mr

220 Robert Garran and Don Greenlees 'Downer signs Gap deal with Dili', *The Australian*, 6 July 2001.

221 'East Timor to ratify Timor Gap Treaty', *Asia Times*, 4 April 2002; 'Timor Sea Treaty To Be Ratified', 2 April 2002, http://www.rigzone.com/news/article.asp?a_id=2975

222 Jill Jolliffe, 'East Timor oil pact row stirs', *The Age*, 26 March 2002.

223 Jane Counsel, 'Americans threaten to derail Timor oil talks', *The Sydney Morning Herald*, 26 June 2001.

Guterres said a decision to stick to the 1972 Indonesian-Australian agreement on sea borders meant East Timor could be robbed of control over valuable resources: 'Boundaries have been decided by simply following negotiations with treaties signed by Indonesia and Australia'.²²⁴

Resources development

Phillips Petroleum announced on 13 March 2002 that it had decided to go ahead with a \$US3 billion project to develop the Bayu-Undan field and pipe its gas ashore to Darwin where it would build one of the world's biggest liquefied natural gas processing plants. The move followed the signing of an agreement by Phillips and its partners (Inpex of Japan, Agip of France and Santos of Australia) with Tokyo Electric Power and Tokyo Gas to buy nearly all of the field's proven reserves under a 17-year contract due to begin in 2006. Phillips had also agreed to sell the two Japanese companies a 10 per cent stake in the field, reducing its own holding to 48 per cent. Bayu-Undan has estimated reserves of 3,400m cubic feet of natural gas and 400 million barrels of condensate and liquefied petroleum gas. It will supply 3 million tonnes of LNG a year to the Japanese power companies. Phillips had hoped to commence the development in 2001 but was held up by a tax dispute with East Timor that caused it to lose contracts with Methanex, the Canadian chemicals group, and El Paso, the US energy group. Australia's share of the royalties from the project was put at about \$A2 billion over the lifetime of the Japanese contract, while East Timor's is estimated at \$A6 billion (\$US3.1 billion). The royalties would be the new state's largest source of income. The deal was also a win for the Northern Territory where successive governments had pushed for decades for the commercialisation of the Timor Sea gas fields.²²⁵

Despite the breakthrough on Bayu-Undan, negotiations on the other large project in the Timor Sea remained deadlocked. In contention were two large oil and gas fields known as Greater Sunrise. Phillips Petroleum owned 30 per cent of the Greater Sunrise gas field.²²⁶ About 80 per cent of this resource lay on the Australian side of the 1972 seabed boundary. The remainder was within the JPDA. These reservoirs were subject to a so-called 'unitization' agreement between the oil companies and the East Timorese Government, which was in the process of being negotiated (unitization meant treating the field as a unit or whole).²²⁷ Woodside Petroleum (owning 33.44 per cent) had come down in favour of a proposal by Royal Dutch/Shell to develop substantial resources in the Timor Sea via the world's first floating liquefied natural gas facility. The decision reversed the original plan to bring the gas onshore through a pipeline and dealt a blow to Phillips Petroleum, the other

224 'Economy hinges on oil and gas deal', *Asia Pacific*, 15 May 2002.

225 Virginia Marsh, 'East Timor set for bonanza as gas project gets go-ahead', *Financial Times*, 14 March 2002; Michael Richardson, 'Battle lines drawn in fight for oil riches off East Timor', *International Herald Tribune*, 17 May 2002.

226 Royal Dutch/Shell Group had a 26.56 per cent stake, Woodside Petroleum Ltd. of Australia had 33.44 per cent and Osaka Gas Ltd. of Japan had 10 per cent (Michael Richardson, 'Battle lines drawn in fight for oil riches off East Timor', *International Herald Tribune*, 17 May 2002).

227 Nigel Wilson, 'Drilling begins at \$1.6bn project,' *The Australian*, 3 June 2002; 'With Independence, What Changes for the Timor Gap?' *The La'o Hamutuk Bulletin*, vol.3, no.4, May 2002. East Timorese and Australian officials held the first round of negotiations on reaching an international standardization agreement in the Greater Sunrise gas field on 18 July 2002. After the meeting, Prime Minister Alkatiri said: 'We now have a clear negotiating timetable and are in a good position to conclude a standardization accord by the end of the year' ('Talks begin with Canberra on Greater Sunrise gas field', *Lusa*, 19 July 2002).

partner in the \$US4.9 billion Greater Sunrise project, and to the Northern Territory government that had hoped to use the offshore energy reserves to develop an industrial base in Darwin. Under the original plans, one option was for Sunrise to share Bayu-Undan's pipeline and for gas from the two fields to be marketed jointly, with El Paso Corporation signing a letter of intent, later expired, to be a cornerstone customer. Woodside, which as operator of Sunrise was asked in 2001 to evaluate the competing proposals, said on 13 March 2002 it had decided on Shell's plan because it involved lower costs. 'The fundamental economics of a floating LNG facility at Sunrise are significantly better than bringing the gas to shore', said John Akehurst, Shell's managing director. Phillips favoured a pipeline partly because this would enable it to share infrastructure with its Bayu-Undan project, the first Timor Sea field being developed. Even if Phillips agreed to the Shell plan, the Australian government could refuse permission for a floating LNG facility. Under Shell's proposal, the gas would be processed, liquefied and stored on the facility before being loaded on to tankers and exported without ever entering Australia.²²⁸ Phillips said on 14 March 2002 it was still not convinced that the floating LNG facility proposed by its partners, Royal Dutch/Shell and Woodside, was the best way to proceed.²²⁹

With Phillips Petroleum beginning a production drilling program for the \$US1.6 billion Bayu-Undan gas recycling project, the first major development of the Timor Sea gas fields was under way. But a commitment to a \$US1.4 billion (\$A2.4 billion) onshore liquefied natural gas plant with gas piped from the fields to Darwin awaited the East Timorese parliament's ratification of the Treaty with Australia. Drilling of a batch of six wells from Wellhead Platform-1, the first of three offshore platforms to be constructed on the Bayu-Undan reservoirs, began as East Timor celebrated its independence on 20 May 2002. Bayu-Undan's gas recycling operation was scheduled to be in production by early 2004, producing about 100,000 barrels a day of condensate, propane and butane from a permanent floating storage and offloading facility. The product was expected to be sold on the international market. Development of the Bayu-Undan project went ahead despite domestic pressure on the East Timorese leadership to renegotiate the maritime boundary with Australia. Phillips' Darwin area manager, Blair Murphy, said on 2 June 2002 the LNG phase of Bayu-Undan needed early ratification of the Timor Sea treaty by the two countries' parliaments so markets could be met on time. Mr Murphy said the LNG project would take gas from Bayu-Undan and process it for sale under the 17-year contracts with Tokyo Electric Power Co and Tokyo Gas, with shipments scheduled to begin in 2006. Following approvals from the boards of the Bayu-Undan project companies, formal project commitments were expected by November 2002.²³⁰

Australia's rejection of international arbitration

Speaking at a seminar on maritime boundaries in the Timor Sea on 14 June 2000, Mr Bill Campbell, First Assistant Secretary, International Law Office,

228 Virginia Marsh, 'Woodside opts for Shell plan over Phillips', *Financial Times*, 21 February 2002.

229 Virginia Marsh, 'East Timor set for bonanza as gas project gets go-ahead', *Financial Times*, 14 March 2002.

230 The venturers were Phillips (58.6 per cent), Santos (1.8 per cent), Inpex (11.7 per cent), Kerr-McGee (11.2 per cent) and Agip (6.7 per cent); Nigel Wilson, 'Drilling begins at \$1.6bn project,' *The Australian*, 3 June 2002.

Attorney-General's Department, said he favoured a negotiated settlement of the Timor Gap dispute rather than arbitration by an international court or tribunal: 'States lose a degree of control over maritime delimitation where the matter is placed in the hands of a court or tribunal. The resulting boundary/arrangements may not satisfy some or all of the parties'.²³¹ Mr Campbell's speech foreshadowed a decision announced on 25 March 2002 in a joint statement by Attorney-General Daryl Williams and Foreign Minister Alexander Downer that Australia would henceforth exclude maritime boundaries from compulsory dispute settlements in the International Court of Justice and the International Tribunal for the Law of the Sea. 'Australia's strong view is that any maritime boundary dispute is best settled by negotiation rather than litigation', Foreign Minister Alexander Downer said. Mari Alkatiri, East Timor's chief minister, described the move as 'an unfriendly act'.²³²

Mr Downer denied the decision was linked to the Timor Sea issue but the announcement was made after a seminar held under Petrotimor auspices in Dili on 23-24 March 2002, during which experts advised that East Timor should own most of the biggest natural gas fields so far discovered in the Sea, including the Greater Sunrise resource being developed by Woodside, Shell, Phillips and Osaka Gas.²³³ The seminar heard advice from two international law experts, Professor Vaughan Lowe of Oxford University and Sydney barrister Christopher Ward, that current maritime law would swing the lateral boundaries of East Timor's offshore zone to the east and west, giving it at least 80 per cent of the Greater Sunrise fields and potentially 100 per cent, as opposed to the 20 per cent under present boundaries.²³⁴

On the first day of East Timor's independence, leaders of the new state raised the prospect of taking Australia to court to gain a greater share of the rights to resources in the waters between the two countries. After Australian and East Timorese government leaders signed the Timor Gap Treaty in Dili on 20 May 2002, East Timorese Foreign Minister José Ramos Horta said he believed Australia would concede a larger share of Greater Sunrise—a gas field three times larger than Bayu-Undan—through negotiation. 'It's only fair and Australia is a fair-minded country', Dr Ramos Horta said. 'I dread the thought we will have to go to court. It would be a failure of leadership if the two neighbours, friendly countries, can't reach agreement through negotiation on new boundaries to replace those struck with Indonesia'.²³⁵

But Prime Minister John Howard said while Australia was open to discussion, the boundaries on which the original treaty with Indonesia was based, which put 80 per cent of Greater Sunrise in Australian territory, were fair: 'We believe that the approach we have taken to date has been very fair; has been generous'. He denied that Australia's withdrawal from the ICJ and from dispute settlement under the United

231 Mr Campbell spoke at "East Timor and its Maritime Dimensions: Legal and Policy Implications for Australia", Canberra, Australian Institute of International Affairs, 14 June 2000; Bill Campbell, 'Maritime boundary arrangements in the Timor Sea', *International Trade & Business Law*, vol.1, no.5, June-July 2000, pp.61-68,72.

232 Michael Richardson, 'Battle lines drawn in fight for oil riches off East Timor', *International Herald Tribune*, 17 May 2002.

233 Attorney-General Daryl Williams and Minister for Foreign Affairs Alexander Downer, 'Changes to International Dispute Resolution', joint media release, 25 March 2002; Hamish McDonald, 'Timor gas billions all at sea', *The Sydney Morning Herald*, 27 March 2002; 'Dispute Over Timor Sea Resources Intensifies', *Xinhuanet*, 27 March 2002.

234 Hamish McDonald, 'Timor gas billions all at sea', *The Sydney Morning Herald*, 27 March 2002.

235 'East Timor Considers Court Action Against Australia', *Asia Pulse*, 20 May 2002.

Nations Convention on the Law of the Sea was unfriendly: 'That is a legitimate protection of a national interest'.²³⁶

Interviewed on 28 May 2002, Mari Alkatiri denied that Australia's position made negotiations on maritime boundaries a waste of time, and left East Timor no alternative but to go directly to the International Court:

No, I think the International Court is really out of the question. Australia has already withdrawn from the jurisdiction of the International Court. This was classified by me at the time as an unfriendly act from the Australian government. Now I'm realising that this act is linked to the maritime boundaries. I hope not. But I'm realising that this is really linked to the maritime boundaries—a way to tighten [tie] our hands. We are looking to apply international law in the zone and we would like, really to have friendly discussions, friendly negotiations between the two friendly countries....I still have a lot of instruments to be used even in the treaty itself. I think the signing of this treaty was the right move.²³⁷

Dr Alkatiri may have taken comfort from Australia's continued adherence to the Law of the Sea Convention, article 83(1) of which requires adherent states to observe international law and custom when reaching agreement on the delimitation of the continental shelf between them—as acknowledged by the Australian Government in its April 2001 response to the Senate Foreign Affairs, Defence and Trade Committee report on East Timor: 'Under international law, it is for both parties to work to achieve an equitable solution'.²³⁸ Current international law and custom would appear to favour division along a line of equidistance.

On 17 June 2002, Dr Ramos Horta said East Timor respected Australia's sovereign right to make the unilateral withdrawal from the jurisdiction of the International Court of Justice in relation to some maritime boundary issues. But East Timor, he said, had no intention of taking legal action as a first step: 'It was never an intention on the part of the East Timor side to seek International Court of Justice intervention as a first measure'.²³⁹

A Maritime Boundary: Unfinished Business

Speaking at the announcement of an agreement between East Timor and Indonesia to begin work on defining maritime boundaries, Indonesia's Foreign Minister, Hassan Wirajuda, observed on 26 February 2002 that it should give Indonesia the right to be part of a three-way process in redefining the boundaries of the Timor Gap:

236 'East Timor Considers Court Action Against Australia', *Asia Pulse*, 20 May 2002.

237 'Alkatiri says Australia has promised to renegotiate seabed boundary', *Asia Pacific*, 28 May 2002.

238 *Senate Hansard*, 5 April 2001. Professor Gordon Lister, Director of the Australian Crustal Research Centre at Monash University, was reported in June 2001 as commenting with regard to the tectonic movements along the line of impact between north-west Australia and the Sunda archipelago that the geological trend was for Timor to be ultimately absorbed by the Australian continent: 'Timor is pretty well on board now, it'll be further on board as time goes by. As Java rides over the Australian plate it will push the sediments up, and that's why we have oil in the Timor Gap now' (Simon Grose, 'Australia adrift in global shift', *The Canberra Times*, 8 June 2001).

239 Karen Polglaze, 'Maritime boundary talks will press Australia', *AAP*, 17 June 2002.

Of course, there is a possibility of the two lines left and right of the formerly East Timor Gap that might touch the area under Australian jurisdiction. So there is a possibility and in fact we have discussed of the possibility in the future for three of us to agree on tri-junction points somewhere in the Timor Sea.²⁴⁰

The border alongside the JPDA is a sensitive issue as several major gas and oil deposits lie just outside Indonesian territory in Australian waters, including the 140,000 barrels per day Laminaria project. In August 1999 Australia defined the south-western maritime boundary for the Interfet operational area in East Timor by drawing a line perpendicular to the general direction of the coastline starting from the mouth of the Massin River which separates West and East Timor: a similar projection of East Timor's maritime claims, if adopted as part of settlement of Timor Gap maritime boundaries, would bring the Laminaria/Corallina fields which are just outside the current western boundary of the JPDA within the sovereignty of East Timor.²⁴¹

The line on the eastern side of the Gap appears to have been drawn from the eastern tip of the East Timor mainland, not the small outlying island of Jaco. If the eastern boundary were rectified to take this into account, the adjustment would put more of the Sunrise-Troubadour gas fields, found by Woodside Petroleum and partners, into the Timor Gap (north of the median line) rather than the Australian exclusive zone. Under the Treaty, this group of gas reservoirs extends about 20 per cent under the shared zone.²⁴² Sunrise-Troubadour could probably produce ten trillion cubic feet of gas, as opposed to three to four trillion cubic feet from Bayu-Undan.²⁴³

Foreign Minister Alexander Downer signalled on 25 May 2002 that Australia would dismiss any proposals from newly independent East Timor to radically change seabed boundaries because it would risk unravelling thousands of kilometres of boundaries that had already been settled with Indonesia. Responding to calls from East Timorese leaders for Australia to provide a greater share of oil and gas reserves currently within Australian territory, Mr Downer said Canberra was obliged to consider any proposals put forward, but a radical change to delimitation of the boundaries was unacceptable:

As I explained to the East Timorese some time ago, we are happy to hear what they have to say but we don't want to start renegotiating all of our boundaries, not just with East Timor, but with Indonesia. It has enormous implications. As I have explained to them, our maritime boundaries with Indonesia cover several thousand kilometres. That is a very, very big issue for us and we are not in the game of renegotiating them.²⁴⁴

In response, Prime Minister Alkatiri said that contrary to Foreign Minister Alexander Downer's assertion, tax and boundaries had not been sorted out:

240 'Trilateral talks in Bali', *AM*, 26 February 2002.

241 Cmdr. Robin Warner, RAN, 'Law of the Sea Issues for the Timor Sea: A Defence perspective', *East Timor and its Maritime Dimensions: Law and Policy Implications for Australia*, Canberra, Australian Institute of International Affairs, 14 June 2000.

242 Hamish McDonald, 'Sounding the gap', *The Sydney Morning Herald*, 21 October 2000.

243 Mr John Akehurst, Managing Director, Woodside Petroleum Ltd, quoted in 'Australia's Woodside Sees No Threat from Timor Gas Rivalry', *Asia Pulse*, 6 December 1999

244 Don Greenlees, 'Downer: no change to Timor borders' *The Australian*, 25 May 2002.

This is nothing to do with boundaries and we would like to negotiate maritime boundaries....Mr Downer responded to me that they are ready to do it....that they are prepared, they are ready to negotiate the maritime boundaries. This is the reality.²⁴⁵

Dr Alkatiri hinted that Australia's position on negotiating maritime boundaries could affect the willingness of the parliament of East Timor to ratify the Treaty:

It depends on the clear position of Australia because for sure, if I decided to table it in the parliament it would be ratified. But I only will do it if it really can help me serving in the best way, my people....I think that it is better to start talking again with the Australian government and try to know clearly, formally what their position is.²⁴⁶

In his maiden speech to the first session of East Timor's parliament on its first day as an independent nation, Prime Minister Mari Alkatiri warned Australia of a tough fight ahead for a greater share of Timor Sea oil and gas revenue. The warning was given just an hour before he signed the Timor Sea Treaty with Prime Minister John Howard: '[The treaty] does not represent, under no circumstances does it represent, a maritime border', he said. The Government of East Timor 'will use all available instruments and international mechanisms to search for a solution'.²⁴⁷ He later described the Treaty as 'an administrative contract, a framework for the two countries to solve their problems, such as the difficulty over maritime boundaries, which is the principal difference which divides us'.²⁴⁸

The Treaty confirmed the creation by the July 2001 interim agreement of a Joint Petroleum Development Area (JPDA), with 90 per cent of revenue going to East Timor and 10 per cent to Australia. East Timor was expected to get \$6 billion in revenue from the Bayu-Undan oil and gas field in the joint area over 20 years. But an annex to the treaty involving the Greater Sunrise field, a richer deposit with reserves worth about \$30 billion that straddles the eastern corner of the joint area, was criticised by politicians, activists and UN officials in Dili. Australia had insisted on the annex as a condition for the treaty going ahead. East Timor would get 18 per cent of revenues from Greater Sunrise, but its Government had legal advice that the entire area could be within its maritime boundaries. Dr Alkatiri said signing the treaty did not prejudice East Timor's boundary claim, while Foreign Minister José Ramos Horta said he expected Australia would eventually concede a bigger share of Greater Sunrise revenue.²⁴⁹

Prime Minister John Howard played down the prospect of further friction over the oil and gas resources following Dr Alkatiri's speech, and denied Australia had been unfair to its impoverished neighbour: 'I was not the least surprised by what he [Dr Alkatiri] said. I expected him to say something of that kind. We'll talk to him,

245 'Alkatiri says Australia has promised to renegotiate seabed boundary', *Asia Pacific*, 28 May 2002.

246 'Alkatiri says Australia has promised to renegotiate seabed boundary', *Asia Pacific*, 28 May 2002.

247 Tom Hyland, 'Brace for fight over oil, Australia told', *The Sydney Morning Herald*, 21 May 2002.

248 Jill Jolliffe, 'Dili still contesting sea treaty', *The Age*, 23 June 2002.

249 Tom Hyland, 'Brace for fight over oil, Australia told', *The Sydney Morning Herald*, 21 May 2002.

we'll listen to him, but we think the way we've conducted ourselves has been fair and reasonable and we'll continue to be like that.'²⁵⁰

Australia and East Timor hoped to conclude negotiations on an agreement covering certain commercial arrangements for Greater Sunrise by the end of 2002.²⁵¹ In Darwin on 16 June 2002, Prime Minister Mari Alkatiri said East Timor would demand Australia's 80 per cent share of Greater Sunrise—the largest gas reserve found in the Timor Sea. Dr Alkatiri told the South East Asia-Australia Offshore Conference in Darwin that Canberra had agreed to discuss new maritime boundaries between the two countries which were not settled by the yet-to-be ratified Timor Sea Treaty. He said: 'Sunrise should be 100 per cent East Timorese'. He added that East Timor's claim was 'open to negotiations'.²⁵² Dr Alkatiri said he believed the Timor Sea Treaty would be ratified by the Australian parliament before it secured East Timorese approval because the new nation was still working out its processes for approving government agreements. He said that existing arrangements covered by the treaty signed on 20 May would not limit East Timor's ambitions for its maritime boundary with Australia. He said both the Laminaria oilfield, operated by Woodside and producing more than 100,000 barrels of oil a day, and the Sunrise gas reservoir, which was being studied for a \$5 billion development project, would come under East Timorese control if the nation's argument for the location of maritime boundaries succeeded. In 2001 Laminaria provided \$81 million to the Australian Government. Dr Alkatiri said that, as a new nation, East Timor did not have legal boundaries with other countries, which meant it could reach a new boundary with Australia. He said:

The main issues still are the lateral boundaries. Our claim is very clear. Under current international law Sunrise should be 100 per cent East Timorese, Laminaria should be 100 per cent East Timorese. We're open to negotiation. We're not going to push for a quick and tidy solution.²⁵³

At talks in Canberra on 17 June 2002, East Timor's Foreign Minister, José Ramos Horta, asked his Australian counterpart, Alexander Downer, to agree to start maritime boundary negotiations as soon as possible. 'There is no timetable as yet', an East Timorese source said.²⁵⁴ Dr Ramos Horta said that East Timor would soon enter negotiations with Indonesia over maritime boundaries, putting pressure on Australia to begin talks to resolve its sea frontiers with East Timor: 'Our position has been made very clear. We intend to start negotiations with Indonesia very soon'.²⁵⁵ He said that East Timor accepted that it was Australia's sovereign decision to 'make reservations' on the jurisdiction of the ICJ. However, he said it was up to both Indonesia and Australia as 'neighbours and friends' to negotiate with East Timor on boundaries. He did not rule out a legal battle with Australia if negotiations broke down.²⁵⁶

250 Tom Hyland, 'Brace for fight over oil, Australia told', *The Sydney Morning Herald*, 21 May 2002.

251 Don Greenlees, 'Downer: no change to Timor borders' *The Australian*, 25 May 2002.

252 Karen Polglaze, 'Maritime boundary talks will press Australia', *AAP*, 17 June 2002.

253 Nigel Wilson, 'East Timor to extend sea oilfield', *The Australian*, 18 June 2002.

254 Craig Skehan, 'Timor stakes claim for bigger slice of gas field', *The Sydney Morning Herald*, June 18 2002.

255 Karen Polglaze, 'Maritime boundary talks will press Australia', *AAP*, 17 June 2002.

256 Craig Skehan, 'Timor stakes claim for bigger slice of gas field', *The Sydney Morning Herald*, June 18 2002.

On 9 July 2002, East Timor's parliament approved draft legislation outlining a maritime boundaries claim extending 200 nautical miles from the nation's coastline. The claim took in oil and gas deposits and fishing zones in waters claimed by Australia and Indonesia. It claimed all of the JPDA, and all of the Greater Sunrise gas field. Prime Minister Mari Alkatiri said the legislation should not be seen as aggressive towards Australia and that he looked forward to peaceful negotiations:

In areas where there could be overlapping, we hope to begin calm and swift negotiations with the parties involved. East Timor is a small country, recovering after decades of occupation, and our neighbours are strong and rich. However, I believe that Indonesia and Australia will be fair in the negotiations.²⁵⁷

The future

Australian Opposition leader Simon Crean said the signing of the Timor Sea Treaty on 20 May 2002 was an important first step in the relationship between the two now-independent countries, 'Not only in economic terms, but in terms of the way in which we do business, can sit down and renegotiate in the interest of further cooperation and in particular, for the further development and greater economic independence of East Timor'.²⁵⁸ The question arises, what will be the next step, and toward what ultimate goal? Is the policy of the Labor Party still that resolved at the August 2000 national conference, that 'Labor is prepared to support the negotiation and conclusion of a permanent maritime boundary in the Timor Gap based on lines of equidistance between Australia and East Timor'?²⁵⁹ Would this policy be executed by a future Labor government, or would Labor in government revert to the policy enunciated by William McMahon in October 1970,²⁶⁰ consistently followed by all Australian governments?

Since 1970, Australian governments have pursued the receding horizon of an agreed international boundary along the line of the Timor Trough. A significant first step toward achieving this was gained when Indonesia agreed to a seabed treaty in 1972. In the succeeding thirty years the trend has set very much against Australia gaining its desired outcome. The successive rulers of East Timor—Portugal, Indonesia, the United Nations, and now the elected government of an independent country—have all insisted on a maritime boundary along lines of equidistance. Australia has been successful to the extent of achieving, in the 1989 Timor Gap Treaty and in the 2002 Timor Sea Treaty, an interim arrangement which allows exploitation of the oil and gas resources to proceed. This has been at the cost of having an unresolved dispute with East Timor and potentially with Indonesia. Believing it has international law and justice on its side, East Timor will continue to pursue its claim and will seek the support of other nations.²⁶¹ The costs of allowing an unresolved boundary dispute to fester may turn out to be unexpectedly high.

257 'Parlamento aprova proposta de lei sobre fronteiras marítimas'/'Dili aims to claim full maritime boundaries in Timor Sea', *Lusa*, 9 July 2002.

258 'East Timor Considers Court Action Against Australia', *Asia Pulse*, 20 May 2002.

259 Laurie Brereton, 'Labor Party policy on the future of the Timor Gap', media release, 3 August 2000.

260 Minister for External Affairs William McMahon, *House of Representatives Hansard*, Vo1.70, 30 October 1970, p.3108.

261 Jill Jolliffe, 'East Timor says China is its closest ally', *The Sydney Morning Herald*, Vo1.70, 10 July 2002.