



Friends of Baucau Submission

to

The Joint Standing Committee on Treaties Inquiry

Into

Consequences of Termination of the Treaty between Australia and the Democratic Republic of Timor-Leste on Certain Maritime Arrangements in the Timor Sea

In this submission we provide 2 documents:

1. Statement from the Friends of Baucau
2. Background research carried out by long standing member and current Deputy Convenor of the Friends of Baucau, Professor Damien Kingsbury



1. Statement from the Friends of Baucau.

In presenting this statement we look forward to the opportunity to expand each of these points at a future public hearing.

The Friends of Baucau is one of the earliest friendship committees established between the people of Timor-Leste and Australia incorporating local government. During the 17 years since we began we have been enriched by the experience of communicating with the Timorese as friends and neighbours. Over that period the Friends of Baucau has provided material support to fill gaps; built bridges of opportunity for the community to benefit from the services of established agencies and bilateral aid programs; and participated in exchange visits to increase understanding and learning between our communities. We are from the Cities of Darebin and Yarra in Victoria. Our management committee consists of community members and council representatives. We have members with a professional involvement in Timor-Leste and Australia in human rights, advocacy, humanitarian aid, community development, and international politics. In all the work that we do we believe it is important that local people are the decision makers. That they are encouraged to recognise and use the resources they have available to

them in order for their activities to be sustainable.

We, the Friends of Baucau congratulate and encourage the Australian Government in terminating the Certain Maritime Arrangements in the Timor Sea Treaty (the Treaty) and entering into a new negotiation process with the Government of Timor-Leste. Our members believe that the existence of the Treaty was one of the most unjust and hypocritical arrangements in Australian political history and the new negotiations opens up the opportunity for Australia to become a more respected neighbour in the region.

Our primary concern and major point in this submission is that the sovereign rights of Timor-Leste will remain denied unless the maritime boundary becomes a median line between Timor-Leste and Australia in accordance with international law. The Timorese people have struggled for and achieved independence except in relation to the area of the Timor Gap. It is time this was rectified.

The consequence of ensuring their sovereign rights are respected is that the Timorese will have complete economic self-determination and be able to decide how, when and if the resources under their control are developed. This will enable them to engage in activities that will improve their own well-being, utilising their own resources. Any extension of the current treaty does not permit such economic independence which is a fundamental human right of every sovereign nation. On the other hand securing a median line permanent maritime boundary with Timor-Leste ensures that access to their rightful amount of resources under international law, will enable this proud nation to flourish.

As Friends of Baucau we have been working to support Timorese to gain access to basic human services and to lift themselves out of poverty. This means that we have used our own resources and the resources of the Australian community to give our Timorese neighbours an opportunity to improve their own situations. We have felt insulted and embarrassed by our Government which at the same time is profiteering by controlling resources that rightfully belong to this poor nation.

Agreeing to a median line boundary will be to the mutual benefit of both nations. We believe greater economic independence and successful statehood in Timor-Leste will lead to greater long term stability in the region, which is ultimately beneficial to Australia.

Our constituency feels a debt of gratitude to the Timorese for helping Australia during WWII. This feeling is a unique feature of our relationship with Timor-Leste. This debt of gratitude has been expressed by the establishment of friendship groups such as ours across Australia and the Australian community has shown strong support and generosity towards Timor-Leste. This relationship between Timor-Leste and Australia has been strained by the existence of such an unjust Treaty and the allegations of spying revealed in 2012. Rebuilding this relationship should be a high priority for Australia as they enter into negotiations for a permanent maritime boundary over the next nine months. We request that Australia treat any further negotiations as an opportunity to support and reaffirm friendship ties with Timor-Leste.

We believe that the first step towards any resolution of the current situation is to agree to a median line maritime boundary between Australia and Timor-Leste, according to the international law of the sea.

- 2. Background research carried out by long standing member and current Deputy Convenor of the Friends of Baucau, Professor Damien Kingsbury.**

Australia-Timor-Leste Bilateral Relations: the Timor Sea Issue

Summary

Timor-Leste's withdrawal from the Certain Maritime Arrangements in the Timor Sea (CMATS) Treaty has triggered negotiations on the future of the Timor Sea. Timor-Leste is claiming that it should have a permanent maritime boundary at the equidistant point between the two countries, in keeping with the Convention of the Law of the Sea (UNCLOS). This is intended to replace the existing non-boundary arrangement under the Timor Sea Treaty. At stake is access to and ownership of the Greater Sunrise LNG field, estimated to be worth AUD\$40-50 billion (depending on prevailing prices), as well as other oil fields.

On its current fiscal trajectory, Timor-Leste's budgetary position means the country will run out of money sometime in the late 2020s, with humanitarian and security consequences to which Australia would be likely have to respond. Assuming an equidistant line, Timor-Leste would, in principle, have access to further resources to forestall or permanently avoid such budgetary collapse.

If Australia accedes to Timor-Leste's request to negotiate a permanent maritime boundary in keeping with UNCLOS, this would also open related negotiations with Indonesia around the issue of lateral boundaries, which were negotiated with Indonesia in 1971 and 1972 without the presence of Timor-Leste's then colonial master Portugal. Australia currently enjoys a significant sea boundary advantage with Indonesia, based on the continental shelf principle.

The timeliness of such negotiations is also relevant to this matter, given that Timor-Leste is facing a likely economic crisis within an identified time frame.

Timeline of relevant events:

1972 Australia and Indonesia agree to a sea boundary based on the ‘continental shelf’ principle, giving Australia a geographic advantage in the setting of the mutual sea boundary. Portugal, then the colonial administrator of Timor-Leste, refused to participate in the negotiations, hence the creation of the unfinished section of the boundary thereafter known as the ‘Timor Gap’.

1989 Australia and Indonesia sign Timor Gap Treaty while Timor-Leste is under Indonesian occupation. Timor-Leste was left with no permanent maritime border in the Timor Gap.

2001 Australia begins discussions with Timor-Leste while administered by UN Transitional Administration in East Timor (UNTAET)

2002 Timor-Leste gains independence and the Timor Sea Treaty signed, reaffirming the status of the Joint Petroleum Development Area (JPDA), with Timor-Leste receiving 90% of revenues. No permanent maritime border is negotiated. Timor-Leste argued the border should be equidistant between it and Australia, placing most of the Greater Sunrise oil and gas field in their Exclusive Economic Zone.

2004 Timor-Leste resumes negotiating with Australia on the border. Australia begins bugging of Timor-Leste’s Cabinet room.

2005 Timor-Leste’s sovereign wealth Petroleum Fund established, with the initial intention that government expenditure not exceed interest earned.

2006 Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS) treaty signed, to be ‘read together’ with Timor Sea Treaty. No permanent border is set.

2006 Timor-Leste descends into domestic chaos. Australian-led international stabilization forces arrive, remaining until 2012.

2007 Timor-Leste parliament ratifies agreement over management of resources of Greater Sunrise field. 20.1% of Greater Sunrise lies within the JPDA meaning, with the 90:10 JPDA arrangement in place, Timor-Leste would receive 18,1% of Greater Sunrise Revenues. This was later amended to 50%.

2007 Xanana Gusmao as Prime Minister of CNRT-coalition government.

2008 Timor-Leste government expenditure begins to exceed Petroleum Fund interest.

2009 Timor-Leste resumes public campaign regarding setting a permanent maritime boundary. Greater Sunrise field development put on hold by joint venture lead partner Woodside Petroleum.

2013 Woodside announces its preferred floating LNG processing platform option

2013 CMATS expires following failure of Greater Sunrise project to commence. Validity of CMATS challenged by Timor-Leste before Permanent Court of Arbitration in The Hague

2013 Attorney-General George Brandis confirms bugging of Timor-Leste's Cabinet room.

2015 Xanana Gusmao steps down as Prime Minister, succeeded by Fretilin's Dr Rui Araujo, forming a 'government of national unity'.

2017 Timor-Leste holds fourth round of presidential and parliamentary elections. CNRT and Fretilin support Fretilin's presidential candidate Francisco 'Lu-Olo' Guterres for the presidency.

202-27 At 2015 rates of government expenditure, approximate date at which Timor-Leste's income from direct revenues and the Petroleum fund will expire.

Status of Australia-Timor-Leste Relations

Australia generally enjoys strong and stable relations with Timor-Leste, but for the recurrent issue of the Timor Sea boundary dispute.

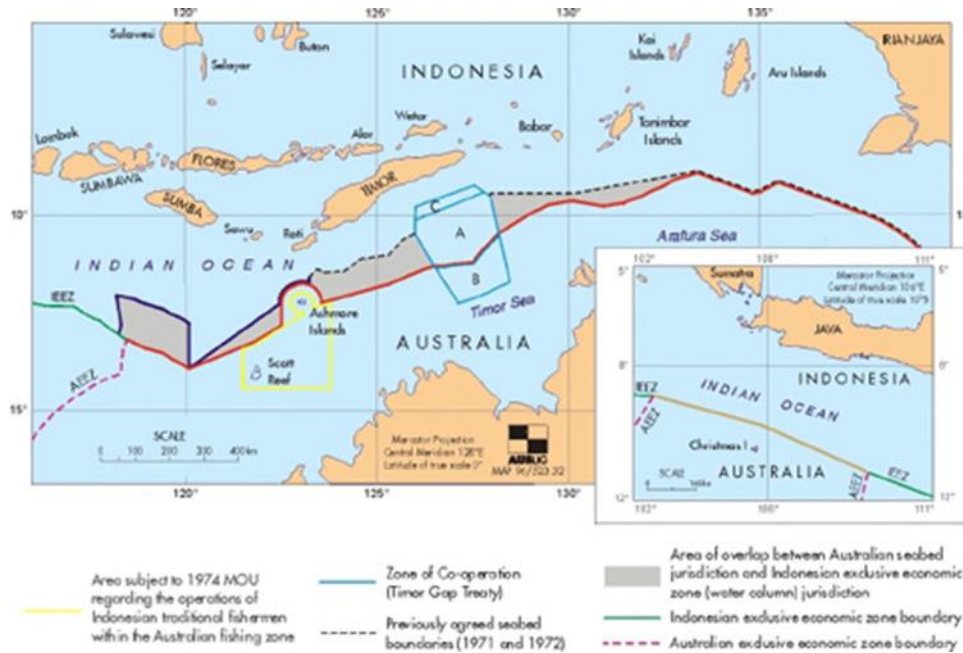
Australia remains Timor-Leste's overwhelmingly largest aid provider, with a bilateral aid budget of \$95.3 estimated for 2015-16, of which \$68 million is managed by DFAT.

Overwhelmingly, the animosity towards Australia that was felt in some quarters during Indonesia's brutal occupation had been dispelled by the euphoria that greeted the arrival of the Australian-led Interfet forces in October 1999. While that intervention was gratefully welcomed, at least some of the goodwill attached to it was later soured by then foreign Minister Alexander Downer's crude negotiations with Timor-Leste Prime Minister Mari Alkatiri over the division of the Timor Sea resources.

The Timor Sea negotiations, begun under the UNTAET administration and subsequently by Timor-Leste's Fretilin government were rancorous. During those negotiations, Downer told the cash-strapped Timor-Leste government that if it did not agree to retain the pre-existing border arrangements, development of and hence income from the Timor Gap's oil deposits would be frozen. Without that income, the government of Timor-Leste would collapse and its people would starve. According to reports at the time, Downer said to then Timor-Leste Prime Minister Mari Alkatiri that this approach was 'a lesson in politics'.

The Timor Sea Treaty was essentially a division of the Timor Sea according to principles originally agreed to under the Timor Gap Treaty by previous Foreign Minister Gareth Evans and Indonesian Foreign Minister Ai Alatas signed in 1989 (effective 1991). Downer subsequently said, of the arrangement that was achieved, that Timor-Leste owed Australia a debt of favor for its 1999 intervention.

It is important to note that the signing of the Timor Gap Treaty followed the signing of the 1972 Australia-Indonesia Seabed Boundaries Agreement. That agreement, based on a continental shelf principle rather than the UNCLOS equidistant principle favored Australia's exclusive economic zone (EEZ) over that of Indonesia. Indonesia's then Foreign Minister Adam Malik was later reported to have said that Australia had gained an unfair advantage from the agreement.



1972 agreement with Indonesia over continental shelf boundary.

The fundamental difference Between the Timor Gap Treaty and the Timor Sea Treaty was over the allocation of resources (90%) from the JPDA to Timor-Leste. This was later added to with the signing of the Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS) in 2006, which imposed a 50 year non-negotiable rule.

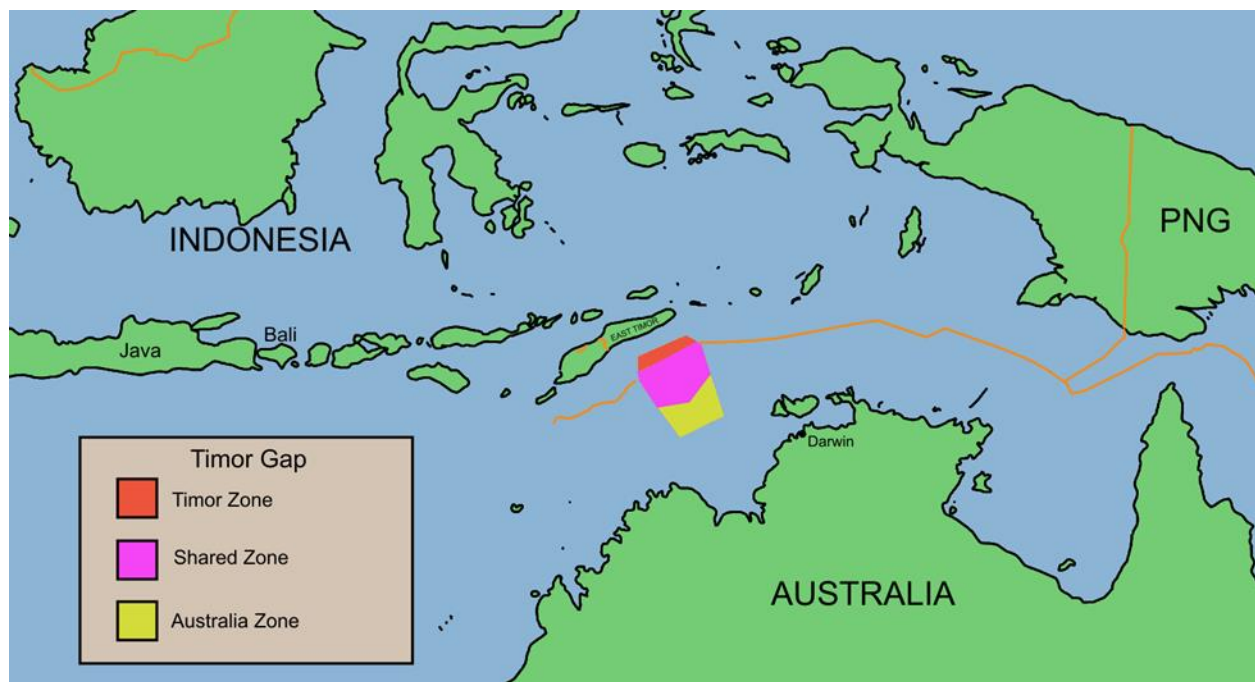


Diagram of 1989 Timor Gap Treaty between Australia and Indonesia

In 2006, political and personal rivalries in Timor-Leste originating in issues in the independence movement in the late 1980s, coupled with a high degree of government centralization, an authoritarian tendency and a popular disconnect led to a rebellion by a section of the army, extensive gang warfare and the displacement of approximately 150,000 people, or around 15% of the population.

Australia led the subsequent (invited) International Stabilisation Force that restored order to Timor-Leste and allowed its institutions to re-establish. However, there was a belief, at least in some circles, that Australia had a hand in, if not orchestrated, the ouster of then Prime Minister Mari Alkatiri (although not the Fretilin government, which remained in office until the 2007 elections).

With the change of government in the 2007 elections and the increasing stabilization of Timor-Leste, relations generally improved. The exception to this improvement was the developing issue of where the processing of the LNG from the Greater Sunrise (Sunrise and Troubador) field, 201.% within the JPDA, would be undertaken. Timor-Leste argued for an on-shore processing facility, as part of its plan to kick-start a domestic petro-chemical industry. Some in the Northern Territory argued for an Australian-based processing facility, to compliment that already established to process oil from the Timor Sea. In 2013 Woodside Petroleum opted for a floating processing platform. The value of the LNG in the Greater Sunrise field is estimated at between \$40-50 billion, depending on prevailing market rates. Studies on implementing FLNG for Sunrise in 2010 showed the facility was capable of producing about 4 mtpa of LNG and 10.3 MMbbl per annum of condensate over 30 years.

Although not explicitly connected to the Greater Sunrise issue, the Timor-Leste government began to increase pressure for a renegotiation of the Timor Sea boundary, which under the CMTAS treaty had been set aside for 50 years. At the lowest point in this issue, Prime Minister Xanana Gusmao portrayed the issue as one of ‘three betrayals’ of Timor-Leste by Australia; the first ‘betrayal’ was said to be the Australian invasion of then neutral Portuguese Timor during World War II which led to Japanese occupation and the subsequent deaths of some 40,000 Timorese; Australia’s acquiescence over Indonesia’s invasion in 1975 and its subsequent *de facto* and then *de jure* endorsement of the occupation; and the third ‘betrayal’ being compelling the status of the Timor Sea agreement and, later, allegations of Australian spying on Timor-Leste’s Cabinet meetings during the negotiation process.

Two matters have arisen from this.

1. There remains a deep-seated sense of mistrust of Australia’s strategic and economic intentions, and a view that the Timor Sea Treaty and CMATS were compelled and were fundamentally unfair.
2. That Australia acted in bad faith and therefore invalidated CMATS.

Timor-Leste's Economy and the Relevance of Greater Sunrise

While there has been a longer term disagreement about the status of the Timor Sea, the government of Timor-Leste has more recently been increasingly aware that its hydrocarbon resources are limited and that it must both seek further sources of income and diversify its economy.

Timor-Leste is one of the most petroleum dependent countries in the world: sales of oil and gas made up 73% of state revenues in 2014, and another 20% came from the investment of past oil income. However, in 2014, oil revenues fell by 40% compared to the previous year. This was partly a result of the fall in global oil prices, but was also due to production levels falling by 24% in the same period. Timor-Leste's oil is now running out, with peak production having passed in 2012, and the Kitan field having just ended production. The Bayu-Undan field is expected to end production around 2020. Government expenditure, derived from the Petroleum Fund and direct oil receipts, is the main driver of the nonpetroleum economy (www.adb.org/countries/timor-leste/economy).

While the Timor-Leste government has a sovereign wealth fund, from which it is supposed to withdraw a 'sustainable' income (i.e. interest), since 2008 the Timor-Leste government has drawn down against both interest and some of the capital of the Petroleum Fund for infrastructure and recurrent expenditure. At current rates of expenditure, it has been estimated that Timor-Leste will run out of both sources of income in the mid to late 2020s (<http://www.laohamutuk.org/econ/model/13PFSustainability.htm>)

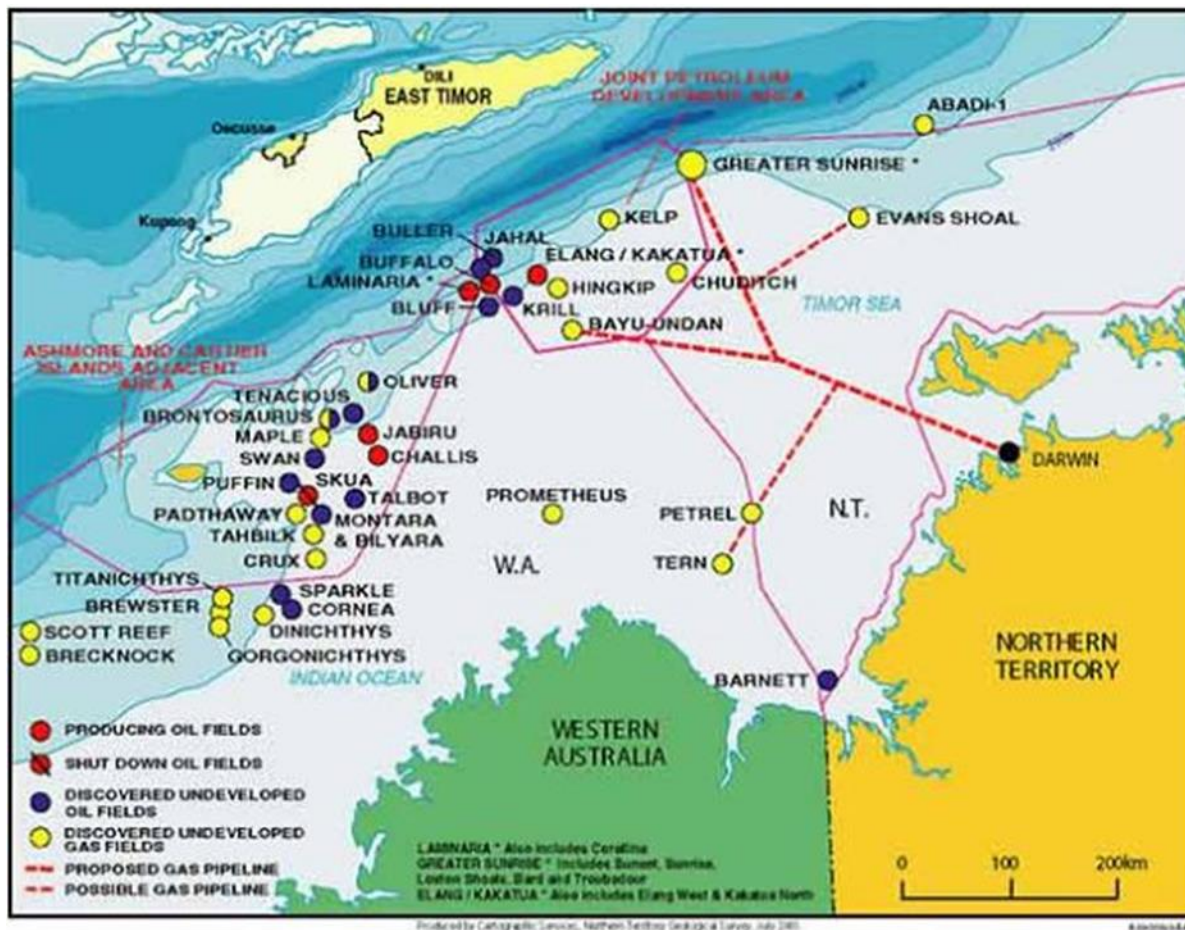
The alternative to relying on receipts from interest from the Petroleum Fund is for Timor-Leste to diversify its economy. Timor-Leste produces a small amount of relatively high quality coffee and has a tiny tourism industry limited by poor infrastructure, relatively low levels of service and high costs. It has also developed a small retail sector, which is entirely dependent on imported goods.

Timor-Leste has become a victim of the 'resources curse', in which states which depend on extracting non-renewable resources neglect or are unable to develop sustainable alternative economic sectors. This is in large part driven by a resource-inflated currency which makes other economic sectors uncompetitive. Timor-Leste uses the US dollar, leading to what has been referred to as the 'dollarisation' of its economy. That Timor-Leste uses the US dollar as its currency has also inflated its underlying cost structure. On one hand, this has allowed Timor-Leste significant currency stability. However, it has also meant that its non-oil and gas economy cannot compete with the lower currency economies in Indonesia and elsewhere in Southeast Asia. In Timor-Leste's case, it has what should be a very low-cost skills base, but very high costs.

The Timor-Leste government's main plan for economic diversification is for the establishment of a hydrocarbon processing and refining industry, to be located on the country's south coast; the

so-called Tasi Mane Project. Timor-Leste’s leaders, including former Prime Minister Xanana Gusmao, Chief of Cabinet Agio Pereira and Resources Minister Alfredo Pires, have each said that the south coast processing facility would kick-start Timor-Leste’s petro-chemical industry, proving both employment and income into the future.

The intention of this project is that an underwater pipeline be laid from the Great Sunrise LNG field to Timor-Leste’s south coast. Timor-Leste’s government argues that such a pipeline would redress the imbalance created by an earlier oil pipeline being routed to Australia’s Northern Territory, adjacent to Darwin. Timor-Leste has initiated arbitration against Australia disputing its exclusive right under international law to tax the pipeline to Darwin from the Bayu Undan gas field in the Joint Petroleum Development Area. Since this discussion has begun, the Timor-Leste government has also committed to partially or wholly funding the cost of infrastructure for the Tasi Mane Project, estimated at five billion dollars (but with Timor-Leste having a history of budget under-estimates and infrastructure cost over-runs).



The Tasi Mane Project, which includes the Suai Supply Base, Betano Refinery, Beacu LNG Plant and South Coast Highway, is discussed in Timor-Leste’s Strategic Development Plan 2011-2030.

The Greater Sunrise consortium¹ led by Woodside Petroleum has noted the technical difficulties of laying the proposed pipeline to Timor-Leste's south coast, given the necessity of crossing the 'Timor Trough' between the gas field and Timor-Leste, which reaches a depth of 3,300 metres, with an average depth of around 400 metres (beyond the trough, much of the rest of the sea is at around 200 metres). The area is also geologically unstable, meaning an underwater pipeline and supports could be vulnerable to seismic activity.

Woodside has also noted that there is little to no infrastructure on the south coast of Timor-Leste, that there is a poor record of infrastructure maintenance in Timor-Leste and that almost all technical staff would operate from Australia or elsewhere on a fly-in, fly-out basis. Most importantly, while Timor-Leste has been politically stable since 2007, between potential longer term political instability (notably due to decreased government spending, which underpins economic activity) and more immediate threats and challenges, there remains (to prospective investors such as Woodside) a high degree of sovereign risk relative to the project's infrastructure cost estimated at \$5+ billion.

In 2013, Woodside instead proposed the establishment of a floating LNG processing platform, from which LNG would be shipped directly to global markets. This proposal has been rejected by the government of Timor-Leste which, under the terms of CMATS, must be a signatory to any further development of resources in the region. As a consequence, the Timor-Leste government has shifted the debate over Timor Sea resources from one of LNG processing and infrastructure development to that of the legality of CMATS and the need to establish permanent sea boundaries consistent with the UN Convention on the Law of the Sea (UNCLOS)².

Australia had argued, in relation to Indonesia and in part with Timor-Leste, that the maritime boundary between the countries should be at the edge of the continental shelf. However, UNCLOS stipulates that sea boundaries should be at an equidistant point between the land borders of countries, unless otherwise agreed to by the respective parties.

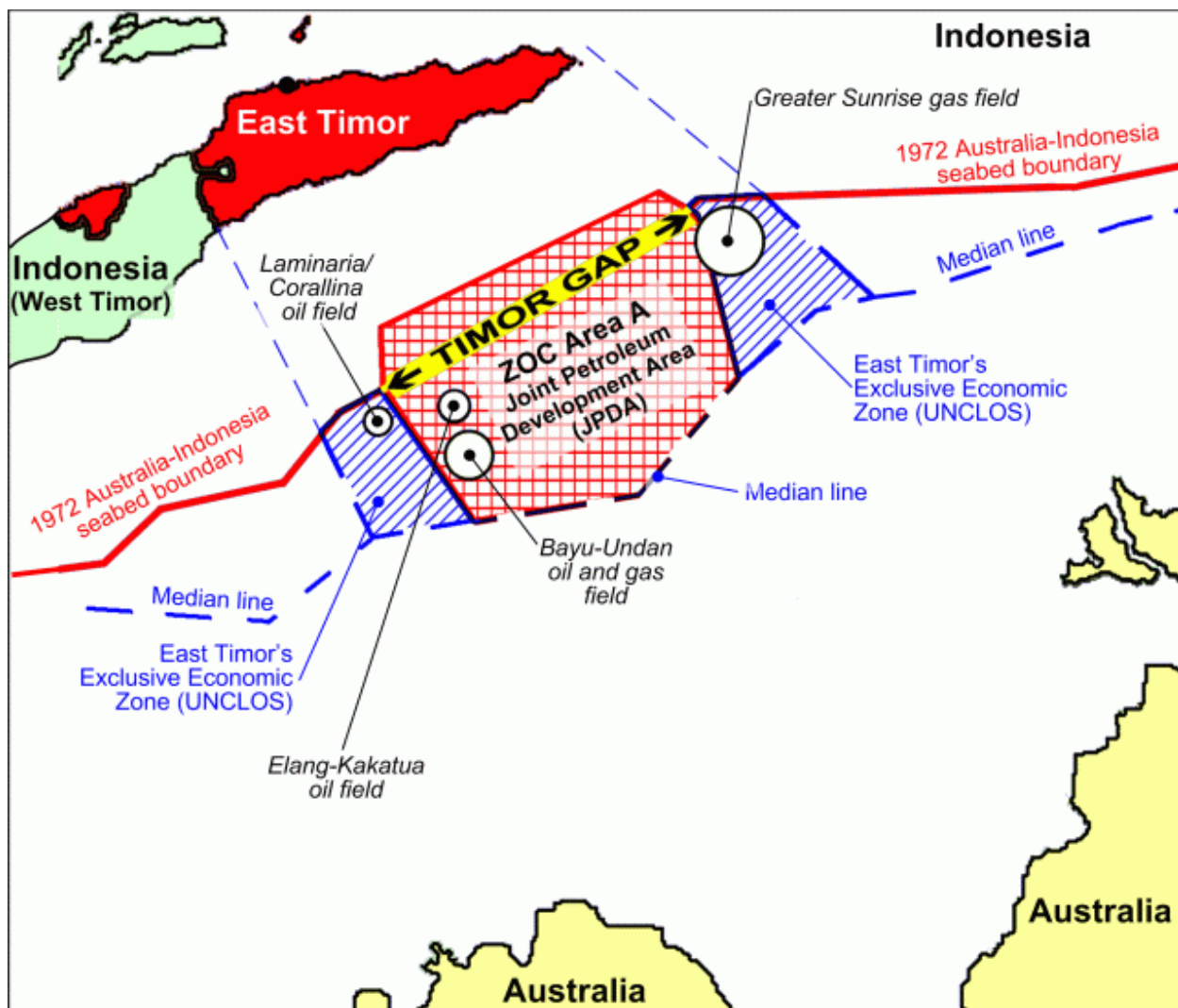
Any advances that were made on developing the Greater Sunrise project were effectively deleted in early 2013 when the CMATS treaty expired in line with a six-year clause which required the project to be developed within that timeframe. A few months later Timor-Leste called for arbitration after questioning the validity of the CMATS treaty, alleging Australia did not conduct the CMATS negotiations in 2004 in good faith as a consequence of its engagement in espionage. Timor-Leste launched a case at the Permanent Court of Arbitration in The Hague to withdraw from CMATS entirely, accusing Australia of having its intelligence agency, the Australian Secret Intelligence Service (ASIS), bug the Timor-Leste Cabinet room in 2004 (since admitted by then Attorney-General George Brandis on the basis of being in the 'national interest').

¹ The Sunrise Joint Venture partners are Woodside (operator) with a 33.4% interest, ConocoPhillips (30%), Shell (26.6%) and Osaka Gas (10%).

² UNCLOS, which followed a series of 1958 treaties and was negotiated between 1973 and 1982, came into effect in 1994. Its general requirement is that sea boundaries be set equidistant from respective land borders other than by mutual agreement. (http://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf)

The Timor-Leste and Australian governments most recently engaged in direct negotiations to resolve the ongoing issues after agreeing to a six-month adjournment to the dispute. Those direct negotiations were ended in 2015. Until a government-to-government agreement is reached, a timetable for the development of Greater Sunrise is unknown. Woodside has indicated the dispute would need to be resolved before the project can proceed.

In 2016, Timor-Leste withdrew from CMATS, forcing the issue of negotiations over a permanent maritime boundary. The Timor-Leste government has said that a settlement of the Timor Sea boundary will provide certainty to Timor Sea investors.



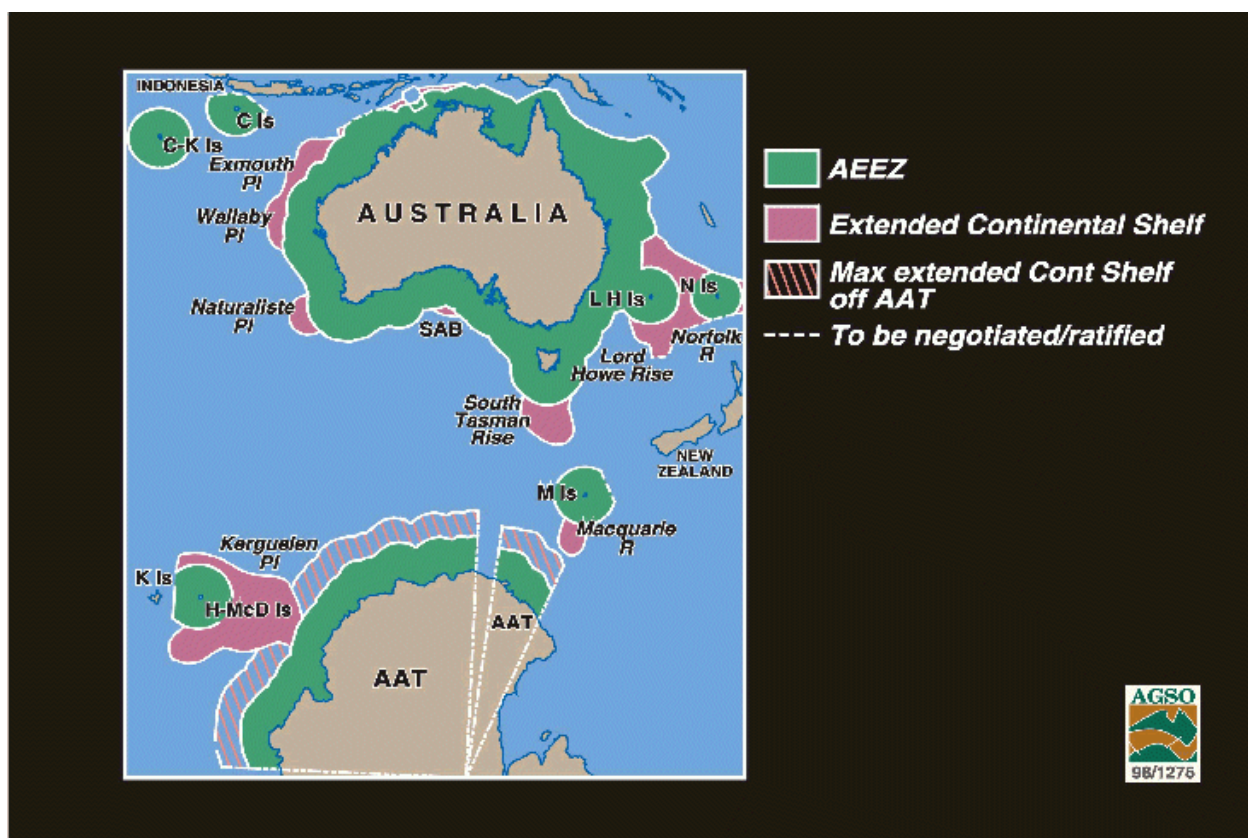
The area is blue is based on the UNCLOS median line principle, and impacts upon Indonesia's sea boundaries as well as those of Australia.

Australia's strategic interests

Australia has territorial sovereignty over a number of mainly remote island territories in the Pacific, Indian and Southern oceans. They differ in size and economic and political significance.

Australia's sovereignty over these islands has not, to date, been challenged. While some concern has been expressed in Indonesia about Australia's sovereignty over Ashmore and Cartier Islands, the Indonesian Government accepted Australian sovereignty when negotiating boundary agreements with Australia in the Timor Sea.

However, should Australia enter into serious negotiations with Timor-Leste regarding the Timor Sea boundary issue, it will first require Australia to negotiate with Indonesia over the direct impact on the Indonesian lateral sea boundary the possibility of this then altering other aspects of the 1972 Australia-Indonesia agreement. Indonesia's embassy has informally said that Australia should talk with Indonesia about boundary matters before renegotiating with Timor-Leste.



Australia's Economic Interests

The Great Sunrise project, should it proceed, is estimated to return around \$8 billion to Australia through taxes. Abandonment of CMATS would consequently cost that amount in lost revenue. However, given that the Timor-Leste government says it does not want the project to proceed prior to a settlement of the border issue, that revenue source is unlikely to be available in any case.

Application of other boundaries agreements

New Zealand

The 2004 Australia–New Zealand Maritime Treaty formalised the ocean borders that had been *de facto* recognised by both countries since the early 1980s, in response to UNCLOS. The treaty defines two separate maritime boundaries, both of which are approximate median points between Australian and New Zealand territory. The northern boundary separates the North Island and Three Kings Islands of New Zealand from Australia's Norfolk Island and Lord Howe Island. The more southern boundary separates Australia's Macquarie Island from New Zealand's Auckland Island and Campbell Island.

Papua New Guinea

Australia does not have a formalized maritime boundary with Papua-New Guinea, but rather shares a 'protected zone' between the two countries.

Options for a way forward

a. Status Quo

Timor-Leste is in a weak position to pursue the matter of the Timor Sea boundary through legal channels, not least because Australia does not recognise the International Court of Justice jurisdiction on this issue. The Permanent Court of Arbitration does not have the legal capacity to compel Australia to change any of its current agreements. Given the Timor Treaty does not expire until 2057, under agreed arrangements, Australia can at least stall, if not block or ignore, Timor-Leste's calls for renegotiation, in effect, indefinitely and certainly until well after all known or believed oil and gas deposits have been depleted.

In economic terms, Australia would neither benefit nor lose from maintaining the *status quo*, given the Timor-Leste government appears not to want to compromise on the issue of processing of the LNG so the matter would remain stalled.

For Timor-Leste, however, the implications are more serious, with current government expenditure seeing the country go broke from approximately 2015. Even reduced government expenditure would only delay the inevitable economic collapse by, at most, ten years, while beggaring even further the people of Timor-Leste. There would, at some point, be a very high likelihood of serious domestic political instability as a consequence of such an economic downturn, set against a population that continues to grow beyond sustainable rates (1.2 million people in 2015, with a fertility rate of six live births per female).

Diplomatic relations with Timor-Leste would remain difficult around this issue but little else in the short to medium term, assuming it continued to be quarantined from the wider bilateral relationship, as currently preferred by Timor-Leste.

In the medium to longer term (10 year+ time frame), Australia would again face the probability of having to return a stabilization force to Timor-Leste, which would probably be less well received given that Australia would be more clearly viewed as the root cause of the problems that produced the prevailing circumstances. Given Australia's aid orientation, this would also imply a high, possibly increased (in current dollar terms), aid budget to Timor-Leste into the indefinite future.

b. Agree to Timor-Leste's demands

Assuming a partner can be found to develop the Greater Sunrise LNG field (given that Woodside is unlikely to pursue development under Timor-Leste's current conditions), the economic implications of agreeing to Timor-Leste's demands are that Australia would forego approximately \$8 billion in taxation revenues.

Again, assuming a partner can be found to develop the Greater Sunrise field, the implications for Timor-Leste would be that its Petroleum Fund would be significantly enhanced and, with careful marshalling of resources, may be able to underwrite a modest economy into the indefinite future. However, if Petroleum Fund resources were spent developing the Tasi Mane project, it is very likely that any economic benefit might be compromised. The Tasi Mane project could be argued to be excessively ambitious, poorly conceived and planned and does not take into account competition from other quarters, including the major 'Tangguh' development by BP in West Papua or LNG processing by Singapore.

Agreeing to Timor-Leste's demands on the Timor Sea issue would also imply entering into negotiations with Indonesia about the Australia-Indonesia maritime boundary, with the possibility that Indonesia would want to revisit at least the question of boundaries in the Timor Sea area adjacent to the Timor Gap. This could potentially create diplomatic difficulties with Indonesia if Australia did not agree to accede to Indonesian wishes for a renegotiated seabed boundary. Such a disagreement could, in theory, open up a wider disagreement about Australian sea boundaries, including those concerning Christmas Island and especially Ashmore Reef.

There is far from any guarantee that acceding to Timor-Leste's demands will produce Timor-Leste's desired economic outcomes. There may, however, still be implications for Australia's aid budget and security assistance.

c. Maintain existing boundaries but offer Timor-Leste financial compensation

This could fall into one of three categories, including increasing the ratio of profit to Timor-Leste; offering a guaranteed payment; or the allocation of all royalty profits from any further economic development of the region.

This option is currently opposed by Timor-Leste's government, but does have some support amongst members of Timor-Leste's Maritime Council which has responsibility for the matter, and could become a viable way forward. For there to be any economic benefits, Timor-Leste would be required to agree to Woodside's proposed floating LNG processing platform, or else find another partner willing to assume the place of Woodside in developing the Greater Sunrise field (to date this has not proven successful).

d. Timelines

Should an alternative to existing arrangement in the Timor Sea be considered, it is unlikely that new arrangements could be put in place, from 2017, for at least four or five years, given time to negotiate with Indonesia and then Timor-Leste, and the starting date of any possible agreements. Assuming the best possible outcomes, this would, however, probably allow sufficient time for Timor-Leste to at least have a chance of saving its economy.

Assuming negotiations could not begin until 2019, this would imply that Timor-Leste would already have started to feel the impact of an economic downturn by the time any possible agreement comes into effect, with implications for domestic stability and Australian aid and possible stabilization/security assistance.

If a policy decision is taken to enter into negotiations, delaying such negotiations after assuming office would only increase the probability that, despite any possible positive outcome, Timor-Leste would face increasingly higher risks of economic collapse and political chaos, with consequent implications for Australia. That suggests that any policy decision on this matter should be taken sooner rather than later.