



Australian Government

Department of Foreign Affairs and Trade

**Joint Standing Committee on the National Capital and
External Territories**

**Inquiry into the Strategic Importance of the
Indian Ocean Territories**

January 2017

SUMMARY

Australia's Indian Ocean territories, Christmas Island and Cocos (Keeling) Islands, are strategically located in the Indian Ocean, an increasingly important and dynamic strategic theatre. The Indian Ocean is a crucial conduit for global trade and is home to some of the world's fastest growing economies. The regional security environment is becoming increasingly challenging, due to growing strategic competition in the broader Indo-Pacific region and non-traditional threats such as transnational crime, people smuggling, piracy and armed robbery at sea, irregular maritime migration, terrorism and illegal fishing.

A secure, stable and interconnected Indian Ocean, and broader Indo-Pacific region, is crucial for Australia's national security and prosperity. The countries of the Indian Ocean rim are Australia's neighbours, and many are also important trade and security partners. Our economy relies on the free and secure passage of maritime trade through the Indian Ocean. That is why advancing regional security and prosperity, and contributing to the shaping and running of regional institutions that reinforce the rule of law and international norms of behaviour, is at the heart of Australia's foreign policy. Australia works closely with regional partners to enhance maritime security and promote habits of cooperation in the Indian Ocean. We do this through defence cooperation, by working to strengthen key regional organisations and forums, contributing to international efforts to address piracy and drug trafficking, strong international advocacy for measures to combat illegal fishing and supporting countries in the Indian Ocean rim to prepare for and respond to disasters.

The Indian Ocean territories increase the size of Australia's maritime jurisdiction in the Indian Ocean. Under the United Nations Convention on the Law of the Sea (UNCLOS), Australia has jurisdiction over an Exclusive Economic Zone (EEZ) that extends up to a distance of 200 nautical miles (one nautical mile is internationally defined as 1.852 kilometres) from the Australian coast. This includes waters surrounding Christmas Island and the Cocos (Keeling) Islands. In the EEZ, Australia has sovereign rights to explore and exploit the living and non-living natural resources of the waters and seabed and to other economic activity. Australia also has obligations under international conventions to provide assistance to any persons(s) or ship(s) in distress within the Australian Search and Rescue Region (SRR).

TERMS OF REFERENCE

The Committee will inquire into and report on the strategic importance of the Indian Ocean Territories to Australia, with regard to:

- the changing regional security environment and security contingencies;
 - defence capability in the territories and associated infrastructure development;
 - the scope of maritime, air and other cooperation with Indo-Pacific partners;
 - and
 - impacts on local communities.
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INTRODUCTION

Australia's Indian Ocean territories, Christmas Island and Cocos (Keeling) Islands, are strategically located on Australia's north western maritime approaches. They lie adjacent to vital sea lanes, including Australia's primary export routes between Western Australia and North and East Asia. Key maritime threats originating from Southwest and Southeast Asia, including illegal fishing, people smuggling and other forms of transnational crime, and irregular maritime migration rely on sea routes that pass near to Christmas Island and Cocos (Keeling) Islands. The Indian Ocean territories are close to Indonesia, Australia's largest neighbour and one of our most important strategic partners, as well as strategically significant geographical features, such as the Malacca, Sunda and Lombok Straits. They are also a territorial stake in the Indian Ocean, an increasingly important and dynamic strategic theatre.

This submission provides regional and international context for the Inquiry. It addresses in particular the changing regional security environment in the Indian Ocean and Indo-Pacific more broadly, including why the Indian Ocean is strategically important for Australia. It also provides an overview of cooperation with Indo-Pacific partners on regional and maritime issues. As further background for the Inquiry, this submission discusses some of Australia's rights and obligations in the Indian Ocean maritime domain under international law. It is designed to complement submissions by other Australian Government agencies. It does not comment directly on current or potential future uses of the islands.

THE CHANGING REGIONAL SECURITY ENVIRONMENT

Regional and International Context

The Indian Ocean is a region of growing geostrategic significance. It is a crucial conduit for global trade, accounting for half the world's container traffic, one-third of bulk cargo transport and around two thirds of the world's maritime oil shipment. It includes some of the world's fastest growing economies, driven by large, youthful and upwardly mobile populations, and huge reserves of natural resources. It is also home to some of the world's largest energy exporters and consumers.

Maritime trade

The importance of the maritime trade routes in the Indian Ocean cannot be overstated (figure 1). These sea routes, or sea lines of communication (SLOCs), facilitate the movement of a significant proportion of global energy and maritime trade, particularly trade to and from North and East Asia. The security of Indian Ocean shipping routes is vital to global economic stability and to the energy security of Asian states reliant on Middle Eastern oil and raw materials.

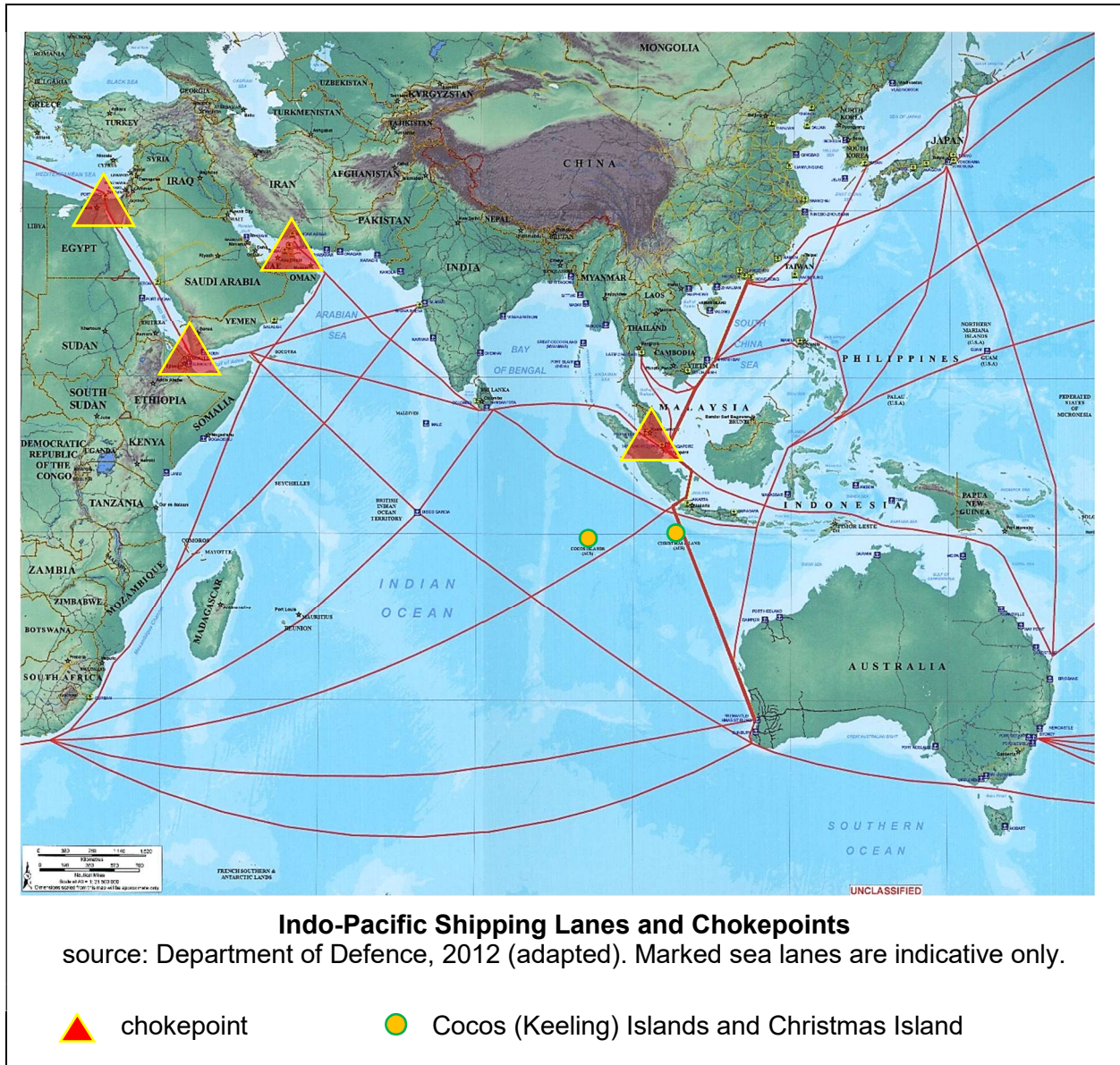
The main east-west maritime trade route traverses the northern rim of the Indian Ocean, and extends from the Red Sea/Suez Canal and Persian Gulf to the Strait of Malacca, passing to the south of India and Sri Lanka. The route contains a number of key chokepoints – narrow channels of sea passage – including the Suez Canal, the Red Sea (Bab el-Mandab), the Strait of Hormuz and the Strait of Malacca. Chokepoints are strategically important due to the increased risk in these locations that SLOCs will be blocked or disrupted by shipping accidents, piracy and armed robbery at sea, terrorist attacks, political unrest or hostilities.

Threats or disruptions to the flow of trade along SLOCs could have severe economic consequences. Rerouting ships adds to shipping costs and ties up global shipping capacity. It can delay crucial shipments and potentially lead to substantial increases in energy prices.

The security of SLOCs is also a strategic issue. Maintaining secure and open SLOCs to guarantee energy trade flows is an explicit national interest of major regional and global powers. Because the consequences are potentially so large if sea lanes are blocked, any threat or perceived threat to disrupt energy trade flows could lead to

regional instability. Conversely, fostering regional stability, respect for international law, and strong habits of dialogue and cooperation on strategic and security issues helps reduce the risk of deliberate disruption to trade routes and energy supplies.

Figure 1



Regional security

The Indo-Pacific region is undergoing a period of great structural change. Over the past 70 years United States (US) strategic dominance has been a foundation of the region’s security and prosperity. But China, India, Indonesia and other powers are rising in strategic weight and are expanding their regional presence and activity, including naval operations. Across the Indo-Pacific, efforts to enhance military capabilities have focused on the maritime domain, reflecting growing concern over

vulnerability to attack from the sea as well as concerns about sustainable natural resource development, competing territorial claims and freedom of navigation. These dynamics are playing out in the Indian Ocean, where strategic competition between regional powers is rising. Although the US remains the dominant military power, China and India are emerging as important powers and are building regional networks and strategic capacity.

Transnational Crime in the Indian Ocean Rim

The Indian Ocean is used to traffic drugs, wildlife, illegal timber and persons, generating significant revenue for organised criminal groups. Heroin in particular is trafficked through the Indian Ocean from Afghanistan, Pakistan and Iran to Africa, then to European Union (EU) and US markets. Indian Ocean rim countries are also transit points for people smuggling and human trafficking operations.

The Gulf of Aden was the focus of pirate attacks from 2005-2011, which cost global trade around USD 6.8 billion. 30% of Australia's trade travels through the Gulf of Aden. Piracy attacks have abated since 2011, but the underlying causes (a lack of economic opportunities and governance in Somalia) remain.

Piracy and armed robbery at sea in Southeast Asia, including around the Strait of Malacca, has been increasing. These attacks typically involve armed robbery of a petty theft nature against ships that are docked or slowly moving close to the coast. Recent years have seen more attacks on oil tankers which are hijacked (temporarily) while its oil is siphoned off to one or two smaller boats, then sold on the black market. These attacks are more complex to coordinate, indicating the involvement of transnational organised crime groups.

Non-traditional threats also make the regional security environment increasingly challenging. Transnational crime in the Indian Ocean, particularly drug trafficking, has become a serious regional problem. While piracy in the Gulf of Aden off the coast of Somalia has decreased, piracy and armed robbery at sea in Southeast Asia is becoming more widespread. Illegal, unreported and unregulated (IUU) fishing occurs in the Exclusive Economic Zones (EEZ) of coastal states and on the high seas and has implications for both security and sustainability. Terrorism and violent extremism is a threat preoccupying governments throughout the Indian Ocean rim.

The Indian Ocean region will remain susceptible to large movements of irregular migrants, given the large, dense populations, and potential for displacement caused by factors including conflict and political unrest, human rights issues, environmental degradation, and natural hazards.¹ In coming years, the strategic environment will also be shaped by factors which may threaten regional stability and security such as regional conflicts, energy, food and water security, the effects of climate change, and social changes brought about by development, technology and globalisation.

The Strategic Importance of the Indian Ocean for Australia

Australia's Indian Ocean coastline, stretching from Cape York in Queensland to Cape Leeuwin in Western Australia, is longer than both its Pacific Ocean coastline and its Southern Ocean coastline. Approximately half of Australia's naval fleet is located along our Indian Ocean coast. Australia's offshore oil and gas resources are concentrated in our Indian Ocean waters. Australia's northern Indian Ocean coastline is close to Indonesia and Timor Leste, and parts of Australia's northern maritime boundary are shared with these two countries, including a shared maritime boundary with Indonesia to the north of Christmas Island. Australia also faces threats to its coastal borders, marine resources and maritime interests originating from the Indian Ocean rim, including drug trafficking and illegal fishing, as well as people smuggling, human trafficking and transnational crime operations.

The importance of secure sea lines of communication

The security of Indian Ocean shipping routes is vital to Australia's economic interests. Over 50 per cent of Australia's export sea freight departs from ports on our Indian Ocean coast.² These shipments will transit through the Indian Ocean regardless of whether or not the final export destination is in the Indian Ocean rim. This includes a large proportion of Australia's resource exports and almost all (99.6%) shipments of iron ore³, Australia's top export commodity. Likewise, a large portion of Australia's resource imports, such as oil, arrive via Indian Ocean trade

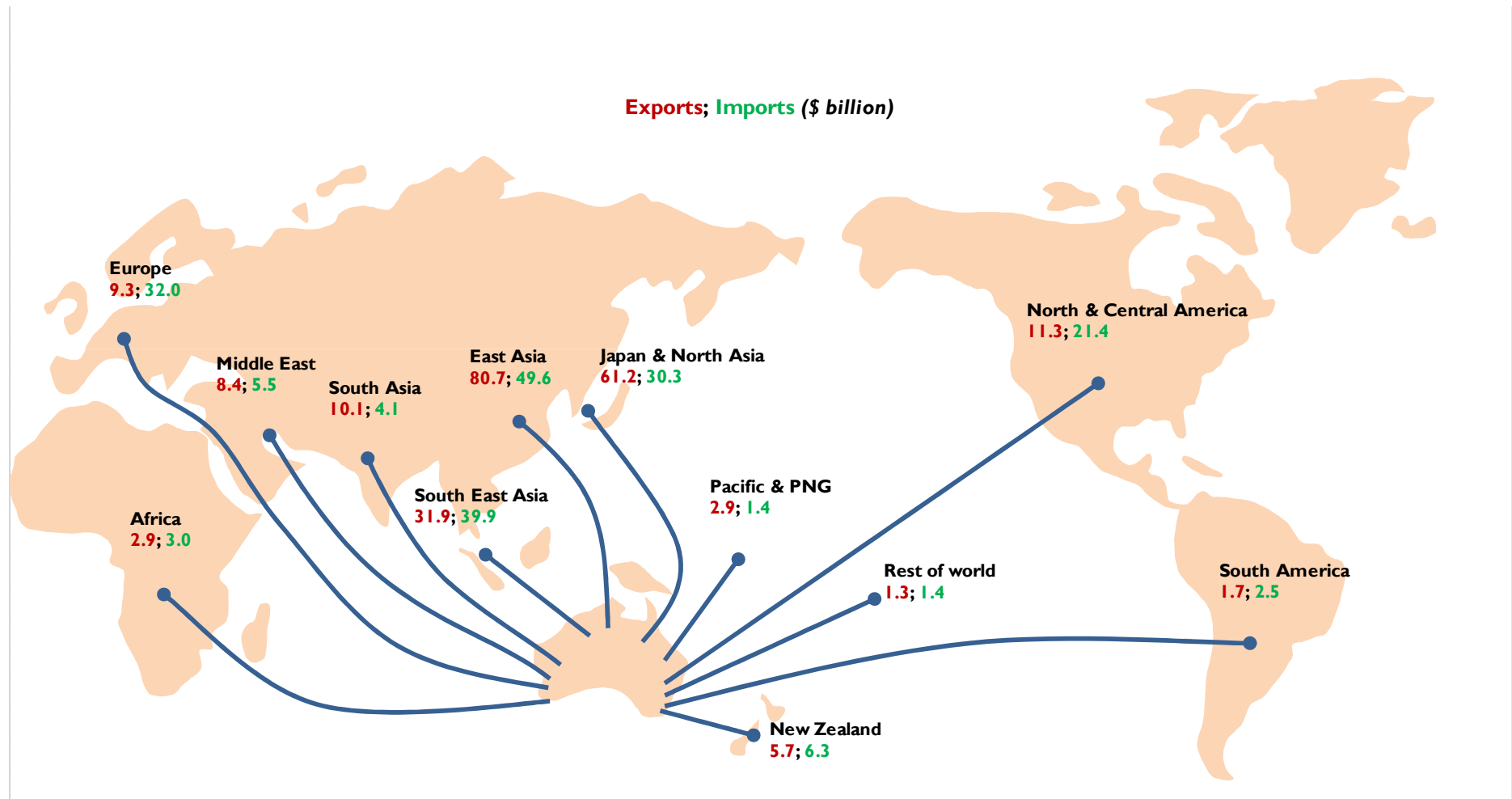
¹ In particular, the Bay of Bengal and Andaman Sea in the northeastern Indian Ocean have experienced large flows of refugees and other irregular migrants.

² Both by weight and by value. Source: Bureau of Infrastructure, Transport and Regional Economics (BITRE) 2015, Australian sea freight 2013–14, Canberra, ACT.

³ Ports Australia, Trade Statistics for 2013/14, <http://www.portsaustralia.com.au/aus-ports-industry/trade-statistics/?id=10&period=14>

Figure 2

Value of Australia's international sea freight by trading region of final destination or origin, 2014–15



Source: Bureau of Infrastructure, Transport and Regional Economics (BITRE) analysis of ABS International Cargo Statistics (2016). Lines indicate final destination, not actual shipping routes.

routes. Many Australian companies operate in the Indian Ocean, both in Australian waters and in international waters throughout the region. More than 50 percent of cargo ships in the Australian international trading fleet used ports on Australia's Indian Ocean coast in 2013-14.⁴

Many of Australia's most important trade relationships rely on the safe passage of sea freight through the Indian Ocean. Figure 2 shows the value of international sea freight travelling to and from Australia by trading region. Primary shipping routes from Western Australia to Australia's major regional export destinations – East Asia (predominantly China), Japan and North Asia, and Southeast Asia – pass through the Indian Ocean, close to Christmas Island (see figure 1). South Asia, dominated by India, is also emerging as an increasingly important destination for Australian merchandise trade.

Key markets for Australian seaborne trade through the Indian Ocean

China is Australia's largest export market (\$85.9 billion in 2015-16) and largest source of imports (\$64.1 billion in 2015-16). Our trade relationship with China will continue to be one of the most important factors contributing to Australia's prosperity. Likewise, Australian exports will remain important for China's resource security. In coming years, China's growing middle class and transition to an economy based on advanced manufacturing, services and consumption will create new export markets for Australian goods, particularly agricultural products.

Japan is Australia's second largest goods export market (\$36.0 billion in 2015-16) and is a key destination for our mineral and fuel exports. Australia's major exports are coal (\$11.2 billion) and LNG. It is also a key market for our iron ore, and copper ores and concentrates. Australia's major imports from Japan are passenger motor vehicles, refined petroleum and goods vehicles. Japan will remain an important trade partner in coming years with Japanese investment in Australia also supporting export activity, including in the energy sector.

⁴ Cargo ships owned or operated by Australian companies for which more than 20 per cent of their voyages called at an overseas port (BITRE 2015).

Southeast Asia is an important market for Australian exports. As a bloc, the ten member countries of the Association of Southeast Asian Nations (ASEAN)⁵ accounted for 14 per cent of Australia's total trade in 2015. The region is already the destination for around a fifth of Australia's food exports, including grains, live animals, dairy and seafood. With a young population of over 630 million, a GDP that rose almost threefold over the past 15 years, a rapidly rising middle class, and deepening economic integration within ASEAN, there is enormous potential for future growth.

India is a significant destination for Australian sea freight, particularly for metallurgical coal as well as agricultural products, gold and other minerals. Merchandise exports to India are expected to continue increasing as India's economy develops over coming decades and there is potential for India to become an important market for Australian thermal coal and liquefied natural gas (LNG). India also offers a significant new market for Australian uranium. New Indian nuclear reactors coming online from the early 2020s have the potential significantly to increase Australian uranium exports through the Indian Ocean.

Regional security and stability

A secure, stable and interconnected Indian Ocean, and broader Indo-Pacific region, is crucial for Australia's national security and prosperity. The countries of the Indian Ocean rim are Australia's neighbours, and many of them are also Australia's important trade and security partners. Without a stable, secure Indian Ocean, trade routes to Australia's west cannot be guaranteed. The strategic theatre of the wider Indo-Pacific and the peaceful interaction of global and regional powers within it are fundamental to our national interests.

Advancing regional security and prosperity, and contributing to shaping and running regional institutions which reinforce the rule of law and international norms of behaviour, is at the heart of Australia's foreign policy. As a maritime nation, Australia is committed to comprehensive maritime security engagement in the Indo-Pacific region, based on:

⁵ The ASEAN members are states are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

- respect for international law, including in resolving disputes, guiding behaviour and ensuring adherence to commitments under UNCLOS, the International Maritime Organisation (IMO), and other conventions;
- freedom of navigation and overflight
- open SLOCs, and voluntary instruments to supplement global norms.

Australia is working with regional partners through existing regional institutions to foster constructive dialogue and build cooperation on maritime security issues, as well as seeking to further codify expectations and behaviour. Regional institutions play an important role in promoting a stable and resilient regional order. Given the geopolitical shifts in the region, more weight will be placed on these institutions in the future to help manage tensions and set the norms of acceptable strategic behaviour, in the region's collective interests.

Supporting this approach is Australia's commitment to transparency in strategic planning. Australia's 2016 Defence White Paper was based on a comprehensive review of Australia's strategic environment. The White Paper identifies three Strategic Defence Interests — a secure, resilient Australia; a secure nearer region, encompassing maritime South East Asia and the South Pacific; and a stable Indo-Pacific region and rules-based global order.

Australia's maritime jurisdiction

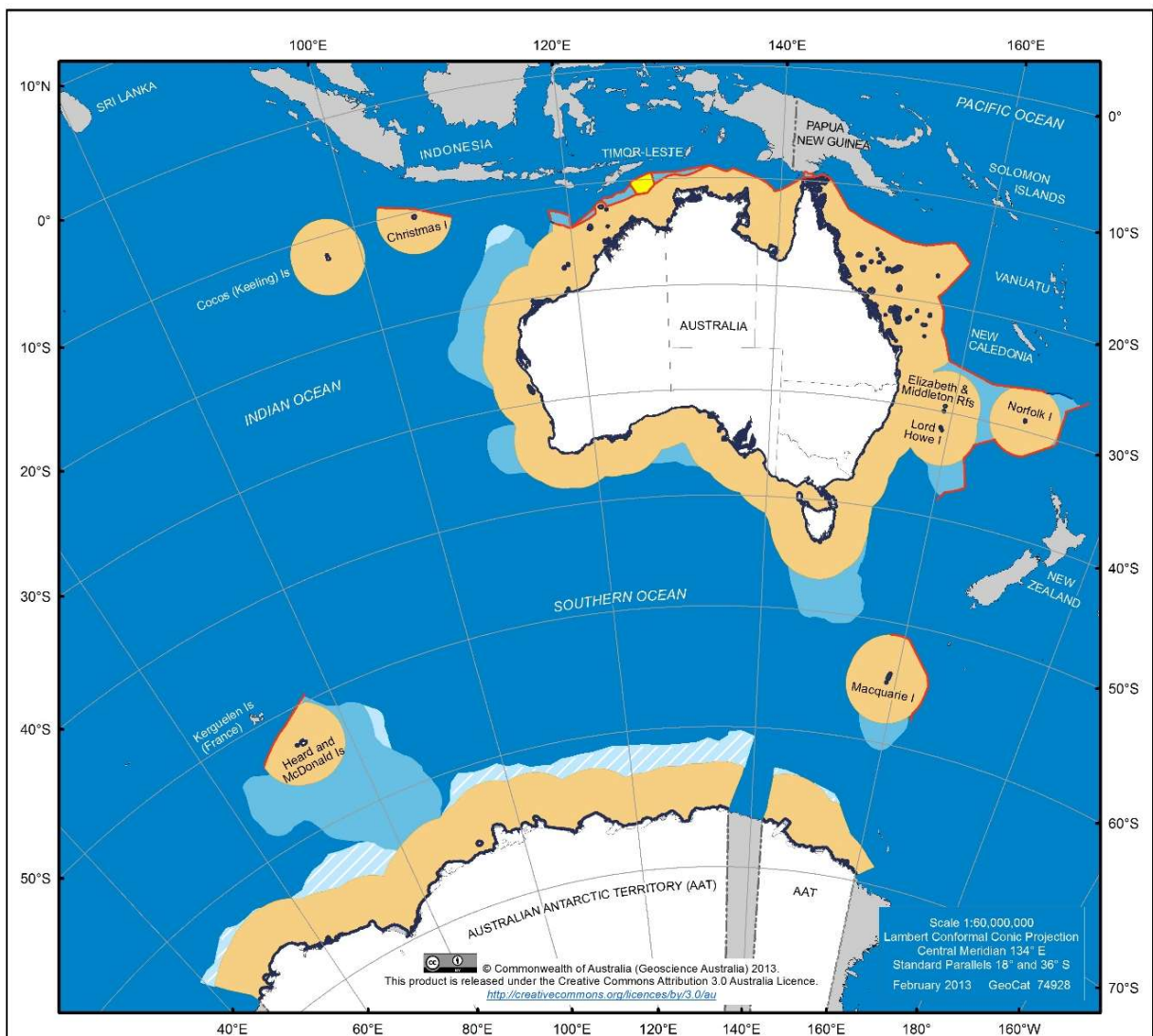
Australia has the third largest maritime jurisdiction in the world, more than double our land mass. Under the United Nations Convention on the Law of the Sea (UNCLOS), Australia has jurisdiction over an Exclusive Economic Zone (EEZ) that extends up to a distance of 200 nautical miles (one nautical mile is internationally defined as 1.852 kilometres) from the Australian coast, and covers some 10 million square kilometres (figure 3). In the EEZ, Australia has sovereign rights to the fishery, mineral, and petroleum resources found in that area - resources worth billions of dollars each year.⁶

While Christmas Island and the Cocos (Keeling) Islands are relatively small, under UNCLOS, islands are entitled to the full range of maritime entitlements available under international law. This means that Christmas Island and the Cocos (Keeling)

⁶ Geoscience Australia, 'Australia's Marine Jurisdiction', accessed 22 December 2016, <http://www.ga.gov.au/scientific-topics/marine/jurisdiction>.

Islands each generate a 12 nautical mile Territorial Sea and a 200 nautical mile EEZ, giving Australia corresponding rights and obligations as set out in UNCLOS. Full sovereignty extends over the Territorial Sea, the airspace above it and the seabed

Figure 3



Australia's Maritime Jurisdiction

- Treaty boundary with opposite or adjacent State
- 200 nautical mile line off an opposite or adjacent State
- Area of Australia's territorial sea and internal waters
- Area of Australia's exclusive economic zone as defined by the UN Convention on the Law of the Sea and certain treaties (not all in force)
- Joint Petroleum Development Area under Timor Sea Treaty 2002
- Area of Australia's continental shelf beyond the exclusive economic zone as proclaimed by the Seas and Submerged Lands (Limits of Continental Shelf) Proclamation 2012 and/or as defined by certain treaties (not all in force)
- Area of Australia's continental shelf beyond the exclusive economic zone considered by the Commission on the Limits of the Continental Shelf and yet to be resolved
- Area of Australia's continental shelf beyond the exclusive economic zone off the Australian Antarctic Territory that Australia requested the Commission not consider for the time being

Source: Geoscience Australia , 2013

and subsoil. In the EEZ, Australia has sovereign rights to explore and exploit the living and non-living natural resources of the waters and seabed and to other economic activity. These rights must be exercised consistent with the duty to protect and preserve the marine environment. Australia also has jurisdiction over the establishment and use of installations and structures and marine scientific research in the EEZ. Consistent with international law, freedom of navigation also applies in the EEZ of our Indian Ocean territories and the regime of innocent passage applies in the territorial sea.

Where there is overlapping jurisdiction between opposite or adjacent States, it is subject to delimitation through negotiations and agreement to achieve an equitable solution based on international law, and is normally confirmed by a treaty between the States, as in the case of our maritime boundary with Indonesia adjacent to Christmas island. Where a coastal state's maritime boundary adjoins the high seas, the State is subject to rules set out in international conventions, the most important of which is UNCLOS. Importantly, the coastal state has the duty to cooperate with relevant states with respect to the conservation and management of straddling and highly migratory fish stocks. In the Indian Ocean, Australia implements this obligation through membership of the Indian Ocean Tuna Commission and the Commission (IOTC) on the Conservation of Southern Blue Fin Tuna (CCSBT) in which we work with other members towards the sustainable management of fisheries resources.

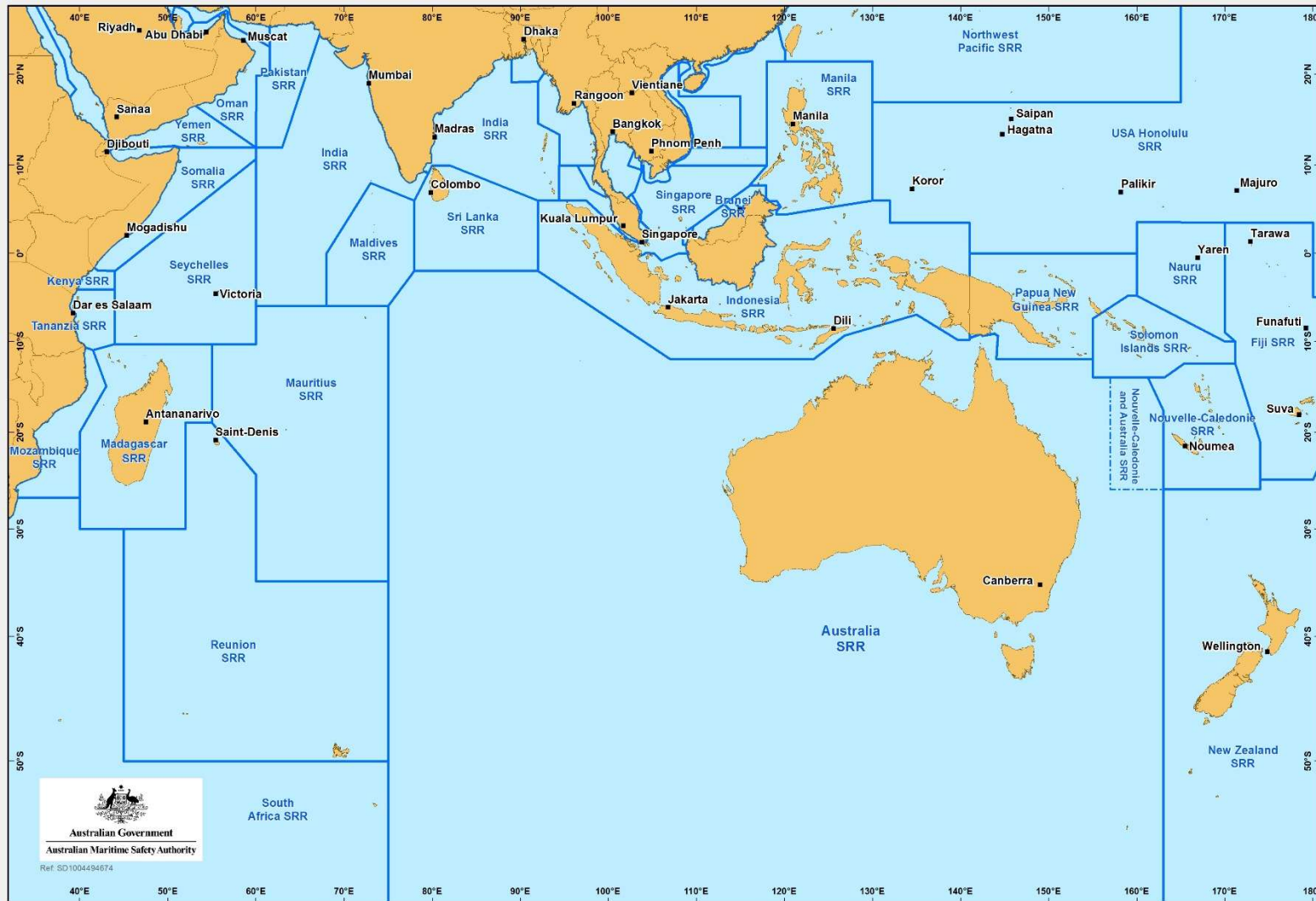
Australia also has obligations under international conventions to provide assistance to any persons(s) or ship(s) in distress within the Australian Search and Rescue Region (SRR). Australia's SRR covers a large proportion of the Indian Ocean and borders the search and rescue regions of six other Indian Ocean rim countries (figure 4). A recent example of the significance of Australia's SRR in an international context is our role coordinating the search for MH370 in the Indian Ocean, in support of the Malaysian accident investigation.

COOPERATION WITH INDIAN OCEAN PARTNERS

Australia works closely with regional partners bilaterally and through regional forums to enhance maritime security and promote habits of cooperation in the Indian Ocean, including by:

- continuing to strengthen strategic and defence cooperation with traditional and emerging partners in the region
- actively participating in and working to strengthen key regional organisations and forums including the Indian Ocean Rim Association (IORA), the Indian Ocean Naval Symposium (IONS) and the Indian Ocean Forum on Maritime Crime (IOFMC)
- working closely with key partners in the Bali Process, the Indo-Pacific's primary regional forum on people smuggling, human trafficking and associated irregular migration, and related transnational crime. In addition to Indonesia (Co-Chair), important Bali Process members include Sri Lanka, Bangladesh, Myanmar, Malaysia and Thailand
- active involvement in regional anti-piracy forums, including the Singapore-based Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), the Regional Fusion and Law Enforcement Centre for Safety and Security at Sea (REFLECS3) and IONS
- contributing a Major Fleet Unit to the multinational US-led Combined Maritime Forces to combat drug trafficking through the Indian Ocean. Since March 2014, Australian vessels have seized over 13 tonnes of narcotics worth approximately AUD 3.3 billion
- strong international advocacy for measures to combat illegal, unreported and unregulated (IUU) fishing, including through active participation in relevant Regional Fisheries Management Organisations (RFMOs) such as IOTC and CCSBT and information sharing
- providing assistance to support the maritime safety, search and rescue capabilities of regional coastal States, and by conducting joint search and rescue exercises and information sharing
- supporting countries in the Indian Ocean rim to better prepare for disasters, and providing effective humanitarian assistance and protection in response to rapid and slow onset crises.

Figure 4



The Australian Search and Rescue Region (SRR)
Source: Australian Maritime Safety Authority, 2017