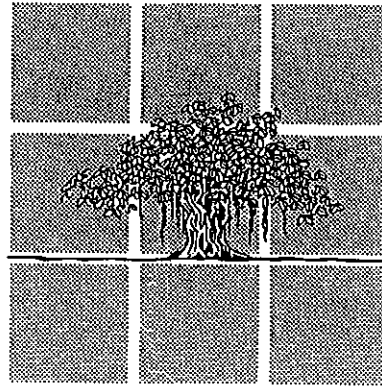


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PETROLEUM MINING IN  
THE NORTHERN TERRITORY:  
An overview of the 1990s

Research Paper No. 5  
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PETROLEUM MINING IN  
THE NORTHERN TERRITORY:  
An overview of the 1990s

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## INTRODUCTION:

The Northern Territory (NT) has become one of the most active areas in the Asian Pacific region for petroleum exploration and production. The successful yields from the Timor Sea and Joseph Bonaparte Gulf area off the Northern Territory coast, together with onshore developers, have proven that the Northern Territory petroleum industry is alive and well.

The Northern Territory Government will be debating Amendments to the Petroleum (Submerged Lands) Act 1967 during 1995 sittings.

The following is an overview of petroleum mining and legislation in the Northern Territory. Included in this research paper are some key articles, graphs and maps to help you investigate the relevant issues.

These research papers are your own personal copies. Further information can be obtained from the library by calling on the hotline near the fax in your lobby room or on extension 97410. For your convenience during the sittings the library is staffed from 8am to 8pm.

PETROLEUM MINING IN THE NORTHERN TERRITORY:  
AN OVERVIEW OF THE 1990s.

## HISTORY

Scientific petroleum exploration in the NT started in the 1950s when extensive regional gravity and aeromagnetic surveys were conducted. A number of principal sedimentary basins became the focus of continuing exploration. In 1963 wells were drilled in the Amadeus Basin by the Ooramina 1 and the Mereenie 1. Gas discoveries were made from 1967 in the Joseph Bonaparte Gulf, in an area known as the Bonaparte Basin. A third successful region was discovered in 1972 in the Timor Sea by Puffin 1.<sup>1</sup> Not all explorations were successful with 18 wildcat exploration wells yielding no returns in 1975.

The introduction of Commonwealth Land Rights Legislation and low petroleum prices changed conditions until the early 1980s. In the 1980s oil was discovered at Challis, located about 20kms south of the Jabiru field, with four appraisal wells drilled in 1986/87. The Mereenie oil and gas field located 240 km west of Alice Springs commenced production in September 1984. In 1985 a pipeline was laid to Alice Springs to allow production to increase to 3900 barrels a day. The Jabiru field located in the Timor Sea about 650 kilometres west of Darwin started producing in August 1986 with about 13 000 barrels a day.<sup>2</sup>

Activity declined up until 1988 when drilling in the Timor Sea and the Joseph Bonaparte Gulf, incorporating four deep-sea rigs, began on at least 15 offshore wells. The Jabiru offshore field in 1988 expanded production from 29000 to a

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<sup>1</sup> Northern Territory Department of Mines and Energy. *Petroleum in the Northern Territory of Australia*. Darwin: Department of Mines and Energy, 1988. p.6.

<sup>2</sup> Ibid.,p.6-8.

possible 60000 barrels per day.<sup>3</sup>

By 1991 the value of petroleum production in the Northern Territory was over \$1 billion. In summary, before the 1990s:

The first onshore well in the Northern Territory that indicated the presence of petroleum was drilled in 1963. Significant discoveries were made during the 1960s. However, it has only been during the last decade that development of a vibrant petroleum industry has occurred.<sup>4</sup>

### **THE PETROLEUM INDUSTRY IN THE 1990s**

The petroleum industry suffered a downturn during the late 1980s with companies suffering up to a 28% plunge in operating revenue. The Australian Petroleum Exploration Association (APEA) called for changes to the “exploration deductibility provisions of income tax law to encourage private investor support for this sector”.<sup>5</sup> Darwin had the potential to become “the oil capital of Australia”, and plans were underway in 1990 with projects including: an oil refinery; investment from Japanese trading company Marubeni opening a drill-pipe supply facility in Darwin; a Middle-East consortium based in Abu Dhabi undertaking a study for a \$50 million supply base and further studies were being made into a gas supply through a pipeline from the Amadeus Basin to Mount Isa and South Australia.<sup>6</sup>

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<sup>3</sup> Op.cit, Northern Territory Department of Mines and Energy. 1988. p.intro.

<sup>4</sup> Op.cit., Northern Territory Department of Mines and Energy. 1991. p.3.

<sup>5</sup> Milne, Chris. “Petroleum Industry Profits Slide From Bad to Worse”, *The Advertiser*. 19.6.91. p.27.

<sup>6</sup> Milne, Chris. “Darwin Planning to Become Oil Capital”, *The Advertiser*. 19.6.90. p.27.

A briefing paper was produced in 1981 by APEA to inform their employees of the complex issues involved in dealings with Aboriginal communities. An Aboriginal Affairs Committee was established to maintain communications between APEA and communities. Issues discussed include:

- \* Recognition of Aboriginal land.
- \* Government compensation for dispossession.
- \* Urging members to explore all areas of contact before undertaking fieldwork.
- \* Association accepting governments rulings on petroleum exploration.<sup>7</sup>

The first petroleum permit negotiated for exploration of Aboriginal land was announced by Barry Coulter (Minister for Mines and Energy) on July 16, 1990. A 14 725 square kilometre area was awarded in the Ngalia Basin, about 200 kilometres north-west of Alice Springs. The Amadeus Basin gas pipeline crossed an area already connected so any new gas fields could be marketed.<sup>8</sup>

1990 saw exploration by BHP Petroleum through the drill ship *Robert F Bauer* and rigs *General M Diamond*, *Sedco 708* and *Zapata Arctic*.<sup>9</sup> In October, a consortium led by BHP Petroleum won a production licence valued at \$100 million for the Skua oilfield in the Bonaparte Basin, 700km west of Darwin. The NT Environmental Centre expressed concern about the expansion of the offshore oil industry in the Timor Sea as a possible threat to the ecosystem. The *Zapata Arctic* began drilling on October 25, 1990 in the face of Australian Workers Union protests that the rig

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<sup>7</sup> Australian Petroleum Exploration Association. *Aboriginal Communities and the Petroleum Exploration & Development: Advice for members of the Australian Petroleum Exploration Association Limited*. Sydney: Sydney Art Exchange, 1981. p.1-2.

<sup>8</sup> Coulter, Barry (Minister for Mines and Energy). *Media Release*. 16.7.90. Ref: N-0618-90.

<sup>9</sup> Muddimer, Dick. "Trouble in Oil Industry as Rigs Change", *NT News*. 19.10.90.

should employ more Northern Territory workers.<sup>10</sup>

## **TIMOR GAP TREATY**

Negotiations between Indonesia and Australia on joint exploration of the Timor Sea, known as the Timor Gap Treaty, was initially agreed to in December 1989 but a moratorium continued throughout 1990 over areas in dispute.<sup>11</sup> The area was broken into 3 zones, with Zone A being administered jointly, Zone B being controlled by Australia and Zone C belonging to the Indonesians.<sup>12</sup> Official treaty implementation was expected in February 1991, but in February Portugal lodged a complaint against Australia with the International Court of Justice contesting the Treaty on the grounds that it denied East Timor's right to self-determination.<sup>13</sup> Portugal had previously broken diplomatic ties with Indonesia in 1976 after it unilaterally annexed East Timor.

A taskforce overseeing the exploration in the Timor Gap was established in 1992. The first major Timorese resistance group, the National Council Maubere Resistance (CNRM) lodged a High Court Challenge to the validity of the 1989 Australian Indonesian Timor Gap Treaty. The CNRM, with the backing of the Australian Democrats, argued that "because neither the international community nor international law recognises Indonesia's annexation of East Timor, the treaty is void and therefore federal legislation implementing the treaty is also void."<sup>14</sup> The Challenge went before the High Court on December 9, 1993 and a hearing was held in August 1994 where the Federal Government's right to sign the treaty was

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<sup>10</sup> "BHP Wins Oil Licence", *NT News*. 19.10.90.

<sup>11</sup> "Indonesian MP Warns of Oil Treaty Conflict", *NT News*. 29.11.90.

<sup>12</sup> "Timor Gap Still Threatened", *NT News*. 14.12.90.

<sup>13</sup> "Portugal Writ to End Timor Treaty", *NT News*. 25.2.91.

<sup>14</sup> "Timor Gap Hits Legal Challenge", *NT News*. 25.6.93.

endorsed. After the decision the Australian Democrats announced they would try to overturn the treaty.<sup>15</sup>

January 1995 brought Portugal back into the debate over Timorese self-determination with the International Court of Justice, which included Australia's Sir Ninian Stephen. The Court agreed with "Australia's argument that it could not decide on the merits of the case because that would force it to rule on the legality of Indonesia's December 1975 invasion and subsequent incorporation".<sup>16</sup> The Court also found that Indonesia was not part of the Court's jurisdiction and therefore was not a party to the proceedings.

## **INVESTMENT IN THE NORTHERN TERRITORY PETROLEUM INDUSTRY**

In May 1991 Alan Griffiths (Commonwealth Minister for Resources) and Barry Coulter (Northern Territory Minister for Mines and Energy) announced that applications were being invited for the award of two offshore petroleum exploration permits in Area B in the Bonaparte Basin. The award was won by the West Australian oil company Petroz who held an exploration permit in the Timor Gap before the decade-long freeze on the area and will now hold 83.7% of Area B. Petroz also nominated for a substantial area within the sought after Zone A area.<sup>17</sup>

The inaugural South-East Asian Australia Offshore Conference was held in Darwin at the beginning of August 1991 to help increase interest and exploration in the Timor Sea. The petroleum industry in the Northern Territory was also experiencing

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<sup>15</sup> "Court OKs Gap Treaty", *NT News*. 25.6.93.

<sup>16</sup> "Timor Court Case: Aussie Victory", *NT News*. 1.7.95.

<sup>17</sup> "Release of Offshore Petroleum Exploration - Northern Territory", *Media Release*. 13.5.91. Ref: N-0252-91.

growth with 14 contract areas in the joint controlled Zone A being offered in 1991.<sup>18</sup>

BHP Petroleum is another company that boosted the NT economy through investing in offshore oil exploration and production by employing 220 Territory residents in 1991 on rigs, boats and in the Berrimah headquarters.<sup>19</sup>

December 1991 brought Alan Griffiths (Australian Resources Minister) and Ginandjar Karasasmita (Indonesian Energy Minister) together in Cairns to discuss the bids for Area A in the Timor Sea with 50 oil companies applying for 14 specific areas. The successful bidders were:

- 4 wells - BHP Petroleum-Inpex
- 1 well - Shell-Chevron
- 4 wells - Woodside-Shell-BHP Petroleum-BP
- 3 wells - Petroz-Sagasco
- 3 wells - Enterprise
- 3 wells - Santos-Marathon-Korea Petroleum
- 9 wells - Marathon-Santos-Korea Petroleum
- 6 wells - Petroz-Pontoon-Emet-Zoc 91-92
- 7 wells - Phillips-Oryx-Hardy-Bridge
- 5 wells- Enterprise-Nippon Oil<sup>20</sup>

1992 began with the BHP Petroleum oil rigs *Sedco 708* and *Epoch* being left in Darwin harbour, ending 6 years of drilling as Timor Sea operations moved into a period of extensive seismic work. BHP Petroleum was still producing 100 000 barrels a day from three Timor Sea fields of Jabiru, Challis and the new Skua

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<sup>18</sup> “Oil-gas Industry Healthy”, *NT News*. 3.8.91.

<sup>19</sup> “BHP Sinking Big Dollars into NT”, *NT News*. 25.9.91.

<sup>20</sup> Loizou, John. “Secret Talks Herald Oil Boom”, *Sunday Territorian*. 15.12.91.

production.<sup>21</sup> This drop in drilling activity in the Timor Sea was the result of the 1986 five year contracts coming to an end.

BHP Petroleum started new operations in the southern Bonaparte Basin in April.<sup>22</sup> In September Barry Coulter (Northern Territory Minister for Mines and Energy) headed a team of mining representatives to visit Asia and the Middle East to help improve prospects for the Commonwealth-backed Darwin oil refinery.<sup>23</sup>

Prospects began looking up at the conclusion of 1992 with the Skua oilfields proving richer than first anticipated and the possibility of 20 million barrels being available.<sup>24</sup>

The American-owned company Marathon Petroleum pioneered the exploration in the jointly-administered Zone A area of the Timor Gap and contracted about 30 companies to work in areas such as transport and supplies.. The exploration began with the oil rig, *The Falcon*, drilling three holes. Forty six workers (26 Australian and 26 Indonesians) alternated with another forty six workers on rotating shifts and all were be paid in Australian wages.<sup>25</sup>

Increased oil exploration was forecast for 1993 with four exploration acreages offshore open for release offering new opportunities.<sup>26</sup> April saw the RV *Rig Seismic* leave Darwin to commence surveying of under-explored areas of the Timor

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<sup>21</sup> Condon, Karl. "Blow for Darwin as Timor Oil Rig Laid Off", *NT News*. 16.1.92.

<sup>22</sup> "New Wells for BHP", *NT News*. 20.4.92.

<sup>23</sup> Coulter, Barry (Minister for Mines and Energy). *Media Release*. 1.9.92. Ref: C-0703-92.

<sup>24</sup> "Skua Oilfield to Pump a Bonanza", *Sunday Territorian*. 29.11.92.

<sup>25</sup> Loizou, John. "Timor Gap Contracts Now Decided", *Sunday Territorian*. 29.11.92.

<sup>26</sup> Rioli, Maurice. "Four New Offshore Permits Offered in NT Waters", *Media Release*. 31.3.93.

Sea. Maurice Rioli (Shadow Spokesperson for Mines and Energy) stated:

The commencement of this work by the Australian Geological Survey Organisation is a concrete demonstration that industry and government geologists believe the North West Shelf and the Timor Sea will become the main petroleum producing province of Australia in the 1990's.<sup>27</sup>

Further areas out of the Zone of Cooperation were explored, such as the Malita Graben, to allow for an overall picture of the entire width of the continental shelf between Australia and Timor. Drilling programs continued in 1992 despite a High Court Challenge to the Timor Gap Treaty by East Timorese activists. The second South-East Asia Australia Offshore Conference was also held in August with more than 15 countries being represented by 150 delegates.<sup>28</sup> Darwin lost the tender for refitting the *Jabiru Venture* worth between \$8 and \$10 million during 1992 because Darwin did not have the port infrastructure, such as heavy tugs, to carry out the job.<sup>29</sup>

A small scale oil refinery began production in Alice Springs in December operated by Central Oil Refineries to process 24 000 litres of oil a day with the crude oil coming from the Mereenie oil field.<sup>30</sup> Production in the Central Australian area was also boosted by a \$10 million investment by producers Magellan and Santos to further explore and develop the Mereenie field.<sup>31</sup> By the end of 1993 extensive

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<sup>27</sup> Rioli, Maurice. "Seismic Survey Gets Under Way in Timor Sea", *Media Release*. 15.4.93.

<sup>28</sup> Stone, Shane (Minister for Mines and Energy). *Media Release*. 30.7.93. Ref: S-0636-93.

<sup>29</sup> "Darwin Loses Major Oil Job", *Sunday Territorian*. 22.8.93.

<sup>30</sup> Stone, Shane (Minister for Mines and Energy). *Media Release*. 10.11.93.

<sup>31</sup> "\$10m Boost to Centre Oil Production", *NT News*. 17.12.93.

seismic surveying had been carried out in Zone A and a detailed interpretation of the data was being undertaken to target areas to start drilling.

1994 saw the beginning of an active 18 months of drilling with the discovery of oil at the Elang 1 well in the Timor Gap Zone of Co-operation, about 500 kilometres north-west of Darwin.<sup>32</sup> In March, Shane Stone (Minister for Mines and Energy) called for the new port wharf facility to be altered to allow for facilities capable of refitting offshore floating production systems such as the *Jabiru Venture* to enhance Darwin's developing petroleum industry.<sup>33</sup> Plans for feasibility studies were overshadowed by an Indonesian announcement at the Timor Gap Task Force meeting that Kupang was proposed to become the oil industry base in the Timor Sea. The Treaty calls for even sharing of all work within the Zone of Co-operation, although statistics over previous years show that Australia has had an advantageous percentage of overall workers. In 1992 Australian workers represented 39% of the workforce compared to the Indonesian 20% and in 1993 the Australian workforce climbed to 45% with the Indonesians only having 21%. In 1994 Australia workers represented 53% compared to Indonesia's 28% (the rest being made up of foreigners).<sup>34</sup>

A positive sign of growth came with the Japanese oil company Teikoku Oil opening its Australian headquarters in Darwin in May 1994. Shane Stone (Minister for Mines and Energy) saw this move as a "coup" in the battle to make Darwin the oil capital of Australia and the Timor Sea region.<sup>35</sup> Teikoku Oil also announced it would

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<sup>32</sup> "Couple May Miss \$30mil Timor Oil Strike Bonanza", *Sunday Territorian*. 27.2.94.

<sup>33</sup> Stone, Shane (Minister for Mines and Energy). *Media Release*. 9.3.94. Ref: S-0204-94.

<sup>34</sup> "Timor Dashes Darwin's Oil Boom Town Dreams", *Sunday Territorian*. 3.4.94.

<sup>35</sup> Stone, Shane (Minister for Mines and Energy). *Media Release*. 16.5.94. Ref: S-0520-94.

commit \$25 million to a drilling project at the mouth of the Victoria River.<sup>36</sup>

A major study commissioned by the NT Government released in October 1994 reviewed the current situation and future developments for Darwin as an offshore supply base through the new East Arm port facilities. Mike Reed (Minister for Mines and Energy) said that the Government had already included many of the recommendation into the actual port design and would look at other suggestions through private sector development.<sup>37</sup>

Exploration continued throughout 1994 in the Elang field and Laminara 1 which produced a flow rate of 5900 barrels over a 10 hour period, one of the largest discoveries in Territory mining history.<sup>38</sup> Two petroleum basin study reports were also released just before Christmas covering the Georgina Basin and the Amadeus Basin.

1995 continued to yield good news for the petroleum industry with further discoveries in the Timor Gap and the International Courts decision to reject Portugal's action against Australia's involvement in the Timor Gap Treaty. Oil was located at Elang West-1 in March with analysts claiming the potential for the area at almost 90 million barrels.<sup>39</sup> Five more offshore petroleum permits were made available in May 1995, three in the Bonaparte Basin and the other two in the Timor Sea.<sup>40</sup>

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<sup>36</sup> Stone, Shane (Minister for Mines and Energy). *Media Release*. 31.5.94. Ref: S-0625-94.

<sup>37</sup> Reed, Mike (Minister for Mines and Energy). *Media Release*. 20.10.94. Ref: R-0965-94.

<sup>38</sup> "New Gap Oil Strike", *NT News*. 12.12.94.

<sup>39</sup> "Third Oil Strike in Gap", *Sunday Territorian*. 5.3.95.

<sup>40</sup> "Oil Permit Up For Grabs", *NT News*. 3.11.94.

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