

## Chapter 2 Economic Growth

### Key Points

- Economic growth in the Northern Territory tends to be volatile from year to year. The small size of the economy means large, typically resource-based, projects can have a substantial impact on investment and income streams.
- During the mid to late 1990s, the Territory economy outperformed the rest of Australia. The impetus provided by the defence relocation program led to increased population growth, creating strong demand and fuelling a construction boom.
- As the stimulus from the defence force program eased back, growth began to weaken, with negative Gross State Product growth in 1999-00.
- In 2000-01 and 2001-02, Gross State Product was boosted by significant increases in offshore oil production, which acted to mask the weakness in onshore economy.
- Gross State Product growth is estimated at 0.3 per cent in 2003-04. Offshore oil production declined significantly for the second consecutive year, but was more than offset by the strengthening in the onshore economy.
- Improving onshore economic conditions in recent years is reflected in solid growth in State Final Demand (SFD), notably for private consumption and investment. SFD growth for 2003-04 is estimated at 4.2 per cent.
- Economic growth is forecast to strengthen to 5.8 per cent in 2004-05. Although moderating, consumption is expected to be the major contributor to growth. Employment will be boosted by work for the construction of liquefied natural gas plant at Wickham Point and a pick up in the tourism sector.

Table 2.1: Territory Economic Growth Profile

Period	GSP (A% Ch)	Comment
Five years 1994 to 1999	5.9	Strong growth phase. Associated with impetus from defence force relocation program. High population growth, strong demand for housing and other economic and social infrastructure, construction boom.
1999-00	-1.2	Downturn. Loss of defence impetus. Weak construction decline in new motor vehicle sales, negative employment growth.
2000-01	6.0	Weak onshore activity. Headline GSP boosted by offshore oil. Falling retail sales, rising unemployment rate. Major net interstate migration outflow.
2001-02	2.2	Pick up in onshore activity. Recovery in consumption. Rail-related investment surge boosting construction and property and business services. Stronger defence-related output, partially offset by a fallback in offshore oil production, weak population growth and the setback to tourism.
2002-03	-0.8	Sharp fall in offshore oil production major influence on weak headline result. Onshore economic performance was mixed. Consumption strengthened and business investment at a high level. Further weakening in population growth. Employment fell and further tourism shocks.
2003-04	0.3 (e)	Offshore oil production continues to fall. Recovery in onshore economy gained momentum, boosted by strong construction activity. Employment and population growth weak, but start to recover. Continued weak tourism activity.
2004-05	5.8 (f)	Onshore recovery broadens. Strengthening in construction, mining and tourism. Consumption growth moderates and business investment falls somewhat, but greater level of local value-adding. Strong employment growth. Population growth continues to recover, but remains weak.

Source: NT Treasury, ABS Cat. No. 5220.0

	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04e	04-05f
	\$ million										
Private Consumption	2 820	3 040	2 968	3 184	3 350	3 600	3 667	3 785	3 983	4 206	4 405
Public Consumption	2 202	2 426	2 410	2 651	2 805	3 003	3 032	3 184	3 341	3 400	3 413
<b>Total Consumption</b>	<b>5 022</b>	<b>5 466</b>	<b>5 378</b>	<b>5 835</b>	<b>6 155</b>	<b>6 603</b>	<b>6 699</b>	<b>6 969</b>	<b>7 324</b>	<b>7 605</b>	<b>7 818</b>
Private Investment											
Dwellings	309	347	333	377	547	404	241	246	270	288	319
Business Investment*	780	991	917	1 133	2 055	1 280	1 267	1 913	2 235	2 412	2 328
Total Private Investment	1 141	1 393	1 304	1 555	2 607	1 682	1 524	2 211	2 521	2 754	2 706
Public Investment	363	322	360	399	255	364	531	633	395	363	399
<b>Total Investment</b>	<b>1 504</b>	<b>1 715</b>	<b>1 664</b>	<b>1 954</b>	<b>2 862</b>	<b>2 046</b>	<b>2 055</b>	<b>2 844</b>	<b>2 916</b>	<b>3 117</b>	<b>3 105</b>
<b>State Final Demand</b>	<b>6 548</b>	<b>7 203</b>	<b>7 062</b>	<b>7 814</b>	<b>9 070</b>	<b>8 686</b>	<b>8 769</b>	<b>9 805</b>	<b>10 267</b>	<b>10 722</b>	<b>10 923</b>
International Trade - export of goods	1 869	1 989	2 212	2 203	2 167	3 191	4 149	3 211	2 859	2 430	2 260
International Trade - import of goods	- 444	- 481	- 522	- 812	- 586	- 1 631	- 620	- 780	- 1 000	- 800	- 1 200
Balancing Item	-1 331	-1 642	-1 495	-1 721	-2 433	-2 129	-3 693	-3 444	-3 405	-3 605	-2 728
<b>Gross State Product</b>	<b>6 642</b>	<b>7 069</b>	<b>7 257</b>	<b>7 484</b>	<b>8 218</b>	<b>8 117</b>	<b>8 606</b>	<b>8 792</b>	<b>8 722</b>	<b>8 748</b>	<b>9 255</b>
	Percentage Change										
Private Consumption	7.3	7.8	-2.4	7.3	5.2	7.5	1.9	3.2	5.2	5.6	4.7
Public Consumption	4.2	10.2	-0.7	10.0	5.8	7.1	1.0	5.0	4.9	1.8	0.4
<b>Total Consumption</b>	<b>5.9</b>	<b>8.8</b>	<b>-1.6</b>	<b>8.5</b>	<b>5.5</b>	<b>7.3</b>	<b>1.5</b>	<b>4.0</b>	<b>5.1</b>	<b>3.8</b>	<b>2.8</b>
Private Investment											
Dwellings	13.2	12.3	-4.0	13.2	45.1	-26.1	-40.3	2.1	9.8	6.7	10.8
Business Investment*	-0.4	27.1	-7.5	23.6	81.4	-37.7	-1.0	51.0	16.8	7.9	-3.5
Total Private Investment	1.9	22.1	-6.4	19.2	67.7	-35.5	-9.4	45.1	14.0	9.2	-1.7
Public Investment	40.2	-11.3	11.8	10.8	-36.1	42.7	45.9	19.2	-37.6	-8.0	9.8
<b>Total Investment</b>	<b>9.1</b>	<b>14.0</b>	<b>-3.0</b>	<b>17.4</b>	<b>46.5</b>	<b>-28.5</b>	<b>0.4</b>	<b>38.4</b>	<b>2.5</b>	<b>6.9</b>	<b>-0.4</b>
<b>State Final Demand</b>	<b>6.8</b>	<b>10.0</b>	<b>-2.0</b>	<b>10.6</b>	<b>16.1</b>	<b>-4.2</b>	<b>1.0</b>	<b>11.8</b>	<b>4.7</b>	<b>4.4</b>	<b>1.9</b>
International Trade - export of goods	-1.6	6.4	11.2	-0.4	-1.6	47.3	30.0	-22.6	-11.0	-15.0	-7.0
International Trade - import of goods	22.0	8.3	8.5	55.6	-27.8	178.3	-62.0	25.8	28.2	-20.0	50.0
Balancing Item	-11.8	23.4	-8.9	15.1	41.4	-12.5	73.4	-6.7	-1.1	5.9	-24.3
<b>Gross State Product</b>	<b>7.9</b>	<b>6.4</b>	<b>2.6</b>	<b>3.1</b>	<b>9.8</b>	<b>-1.2</b>	<b>6.0</b>	<b>2.2</b>	<b>-0.8</b>	<b>0.3</b>	<b>5.8</b>
	Percentage Point Contribution to Gross State Product										
Private Consumption	3.1	3.3	-1.0	3.0	2.2	3.0	0.8	1.4	2.3	2.6	2.3
Public Consumption	1.4	3.4	-0.2	3.3	2.1	2.4	0.4	1.8	1.8	0.7	0.1
<b>Total Consumption</b>	<b>4.5</b>	<b>6.7</b>	<b>-1.2</b>	<b>6.3</b>	<b>4.3</b>	<b>5.5</b>	<b>1.2</b>	<b>3.1</b>	<b>4.0</b>	<b>3.2</b>	<b>2.4</b>
Private Investment											
Dwellings	0.6	0.6	-0.2	0.6	2.3	-1.7	-2.0	0.1	0.3	0.2	0.4
Business Investment*	0.0	3.2	-1.0	3.0	12.3	-9.4	-0.2	7.5	3.7	2.0	-1.0
Total Private Investment	0.3	3.8	-1.3	3.5	14.1	-11.3	-1.9	8.0	3.5	2.7	-0.6
Public Investment	1.7	-0.6	0.5	0.5	-1.9	1.3	2.1	1.2	-2.7	-0.4	0.4
<b>Total Investment</b>	<b>2.0</b>	<b>3.2</b>	<b>-0.7</b>	<b>4.0</b>	<b>12.1</b>	<b>-9.9</b>	<b>0.1</b>	<b>9.2</b>	<b>0.8</b>	<b>2.3</b>	<b>-0.1</b>
<b>State Final Demand</b>	<b>6.8</b>	<b>9.9</b>	<b>-2.0</b>	<b>10.4</b>	<b>16.8</b>	<b>-4.7</b>	<b>1.0</b>	<b>12.0</b>	<b>5.3</b>	<b>5.2</b>	<b>2.3</b>
International Trade - export of goods	-0.5	1.8	3.2	-0.1	-0.5	12.5	11.8	-10.9	-4.0	-4.9	-2.0
International Trade - import of goods	-1.3	-0.6	-0.6	-4.0	3.0	-12.7	12.5	-1.9	-2.5	2.3	-4.6
Balancing Item	2.9	-4.7	2.1	-3.1	-9.5	3.7	-19.3	2.9	0.4	-2.3	10.1
<b>Gross State Product</b>	<b>7.9</b>	<b>6.4</b>	<b>2.6</b>	<b>3.1</b>	<b>9.8</b>	<b>-1.2</b>	<b>6.0</b>	<b>2.2</b>	<b>-0.8</b>	<b>0.3</b>	<b>5.8</b>

\* Private investment less dwelling investment and ownership transfer costs

Source: NT Treasury, ABS Cat. Nos 5206.0, 5220.0

## Economic Performance

2002-03

Onshore economic activity continued to show positive signs in 2002-03, and although patchy across industry sectors, SFD increased by 4.7 per cent. Despite weaker employment growth, consumption strengthened to 5.1 per cent and investment increased by 2.5 per cent following growth of 38.4 per cent in 2001-02. After three years of weak housing construction activity, dwellings investment increased by 9.8 per cent, supported by continued low interest rates and a more balanced housing market.

Despite strengthening onshore economic conditions, Northern Territory Gross State Product (GSP) contracted by 0.8 per cent in 2002-03 as falling offshore oil production, which has limited links to the onshore economy, continued to impact negatively on exports. The Territory economy also continued to be affected by the downturn in international visitor arrivals, with international services exports (a significant proportion of which are tourism related) falling sharply in 2002-03.

2003-04

Northern Territory GSP growth in 2003-04 is expected to be considerably weaker than the 3.4 per cent originally forecast in the 2003-04 Budget. The major impacts on the downward revisions in the 2003-04 Mid-Year Report and 2004-05 Budget are significantly weaker oil production, estimated to have subtracted 2.7 percentage points from growth, and weaker employment growth, which is estimated to have subtracted a further 0.4 of a percentage point. Nonetheless, GSP is expected to increase from negative 0.8 per cent in 2002-03 to 0.3 per cent in 2003-04.

Oil Production

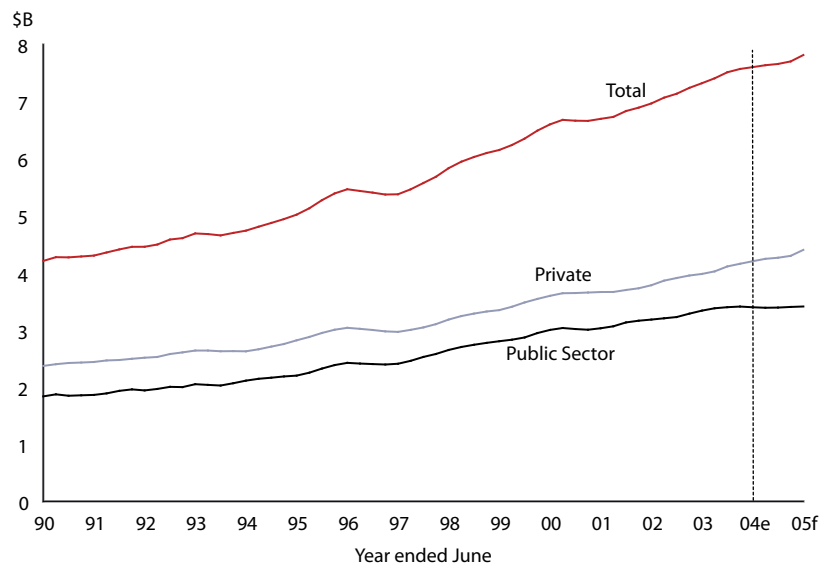
For the second consecutive year, falling oil production from the Lamanaria-Corallina oilfields in the Timor Sea is the major impact on weak headline GSP growth, which is estimated to increase by 0.3 per cent in 2003-04. Nonetheless, the onshore economy continues to strengthen, boosted by activity from the construction of the liquefied natural gas (LNG) plant at Wickham Point and buoyant consumer sentiment and expenditure.

Population growth remains weak, but positive, and dwelling investment and property markets continue to strengthen. Employment growth was weak as construction of the Alice Springs to Darwin leg of the rail link to Adelaide came to an end and the tourism sector continues to struggle. Tourism continued to be affected by the tail end of the world economic slowdown, and the impact of terrorist attacks, the war in Iraq and severe acute respiratory syndrome on discretionary international travel. Despite these setbacks, employment growth did start to pick up in late 2003-04.

Consumption Expenditure

Final consumption expenditure provides an indication of household and government demand and is a key element of economic growth. Consumption typically accounts for around three-quarters of final expenditure in the Territory economy, with household consumption about 55 per cent of total consumption (compared to about 75 per cent nationally). Given the distortionary effect of large, often offshore, resource projects on broad economic indicators, consumption expenditure is often a more reliable indicator of the state of the Territory economy.

Chart 2.1: Territory Consumption (chain volume measure, moving annual total)



Source: NT Treasury, ABS Cat. No.5206.0

Table 2.3: Latest Territory Economic Indicators

Economic Indicators (year on year ended June)	96-97	97-98	98-99	99-00	00-01	01-02	02-03	Latest	Annual % change*
	% Change								
Real Retail Turnover	-6.2	1.9	5.7	6.0	-1.2	3.9	2.7	Dec Q 03	5.6
New Motor Vehicle Sales	2.1	17.0	-3.4	-8.8	-4.2	-0.3	3.3	Mar Q 04	11.2
Tourist Accommodation Takings	10.4	0.8	7.0	16.7	1.4	-1.0	-0.1	Dec Q 03	-5.1
Number of Dwellings Approved	36.8	11.6	0.0	-30.6	-28.4	-13.8	0.0	Feb Q 04	26.4
Number of Dwellings Commenced	17.5	26.6	-9.7	-21.1	-34.0	0.1	-4.1	Dec Q 03	37.1
Employment	3.2	3.3	5.3	-2.3	1.1	5.4	-0.1	Mar Q 04	-0.5
Unemployment (year average)	5.6	4.9	4.0	4.4	5.6	6.8	5.8	Mar Q 04	-1.5ppt
Darwin Consumer Price Index (year average)	1.8	-0.3	0.9	1.4	5.4	2.2	2.3	Mar Q 04	1.1
AWOTE# (year average)	4.0	4.9	3.1	4.6	3.7	2.3	5.0	Dec Q 03	7.5
Wage Cost Index (year average)	n.a.	n.a.	2.8	2.5	2.8	3.1	3.0	Dec Q 03	3.5
Population as at June (levels - thousands)	186.9	189.9	192.7	195.6	197.8	198.7	198.4	Sep Q 03	198.6
Population (annual % change)	2.8	1.6	1.5	1.5	1.1	0.5	-0.2	Sep Q 03	0.2
Net Interstate Migration (levels - number)	1 754	-472	-953	-907	-1 892	-2 596	-3 389	Sep Q 03	-760
<b>Financial Indicators</b>					<b>Rate</b>				
<b>Interest Rates</b>									
90 Day Bank Bill (as at 30 June)	5.4	5.2	4.9	6.2	5.0	5.1	4.7	31 Mar 04	5.5
10 Year Govt Bond Yield (as at 30 June)	7.1	5.6	6.3	6.2	6.0	6.0	5.0	31 Mar 04	5.5
<b>Exchange Rates</b>									
US\$ per A\$ (year average)	0.78	0.68	0.63	0.63	0.54	0.52	0.58	31 Mar 04	0.70
US\$ per A\$ (as at 30 June)	0.75	0.61	0.66	0.60	0.51	0.56	0.67	31 Mar 04	0.76
Special Drawing Rights** per A\$ (as at 30 June)	0.53	0.46	0.49	0.45	0.41	0.43	0.48	31 Mar 04	0.51
Trade Weighted Index of A\$ (as at 30 June)	56.7	57.9	58.4	53.3	49.7	52.3	59.4	31 Mar 04	63.8

\*Quarter on corresponding quarter the previous year, or through the year annual per cent change

\*\*A measure of the Australian dollar against an IMF determined, weighted basket of currencies consisting of the US dollar, the Euro, the yen and pound sterling

#Average weekly ordinary full-time earnings

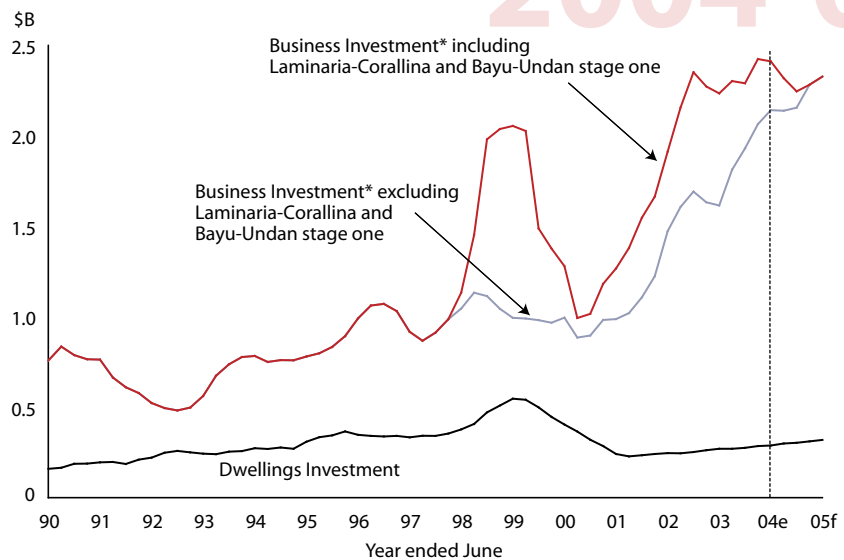
Source: NT Treasury, ABS data

Despite weaker employment growth in the Territory, private consumption continued to strengthen in 2003-04, supported by wealth effects associated with strengthening property markets and buoyant consumer sentiment. Further, earnings growth combined with low inflation and interest rates supported household spending, with retail spending and sales of new motor vehicles continuing to recover in 2003-04. Consumption was further boosted by the pick up in housing construction activity, leading to increased demand for household goods.

## Government Consumption

Government consumption growth is estimated to have moderated in 2003-04 as defence-related consumption stabilised following strong growth in the period since mid-2001. Defence expenditure has been boosted in recent years by the East Timor relief effort, increased border patrol activities and activity associated with overseas operations.

Chart 2.2: Territory Dwelling and Business Investment (chain volume measure, moving annual total)



\* Private investment less dwelling investment and ownership transfer costs  
 Source: NT Treasury, ABS Cat. No. 5206.0

## Investment

Investment is the other component of domestic demand and includes private investment in dwellings, business investment and public expenditure for economic and social infrastructure. Investment is typically more volatile than consumption, reflecting the impact of capital-intensive resource projects on the relatively small Territory economy. Although at a very high level, Territory investment is estimated to have increased by a further 6.9 per cent in 2003-04 as work commenced for the construction of the LNG plant at Wickham Point and the pipeline to the Bayu-Undan fields, and residential and non-residential building activity strengthened.

## Dwelling Investment

Dwellings investment is estimated to have increased by 6.7 per cent in 2003-04, the third consecutive year of growth. Strengthening activity has been associated with low interest rates, Northern Territory and Commonwealth government incentives and a more balanced Territory housing market reflected in lower residential vacancy rates. Non-residential building also strengthened, with the commencement of a number of office, retail, and hotel projects.

## Business Investment

Business investment in the Territory continues to be heavily influenced by major infrastructure works and resource projects. In 2003-04, the major project underway is construction of the LNG plant. Construction of the new bulk fuel liquids terminal at East Arm Port has also commenced.

## SFD versus GSP

The level of investment activity reported by the Australian Bureau of Statistics (ABS), and therefore SFD – consumption plus investment – can be a little misleading in terms of its actual benefit to the Territory economy. Investment demand attributed to the Territory includes the value of activity undertaken outside of the Territory. GSP on the other hand is a measure of value adding and, as such, the two measures are not directly comparable. For example, steel for the railway was from South Australia and construction of the Bayu-Undan platforms in Korea and Singapore have a significant impact on reported SFD, but limited impact on GSP as most of the value adding for these goods occurred outside of the Territory. Chart 2.2 shows the level of Territory dwelling and business investment, excluding offshore oil projects, but including the rail and LNG projects.

## Economic Outlook

The onshore Territory economy is forecast to continue to improve in 2004-05 as employment and population growth strengthen and the recovery broadens across a range of industries. The major influences on the 2004-05 forecast are strong employment growth and increased construction and tourism-related activity. A full year of condensate production from Bayu-Undan is expected to offset the 30 per cent fall in oil production from Laminaria-Corallina. The accuracy of production forecasts for these fields will be a major determinant on the final GSP result. The 2004-05 forecast assumes that a small amount of work will commence on the Alcan alumina project in late 2004-05.

Consumption is forecast to increase by 2.8 per cent in 2004-05, moderating from estimated growth of 3.8 per cent in 2003-04. Investment is forecast to increase marginally, remaining at a very high level supported by increased public sector expenditure. Territory GSP is forecast to increase by 5.8 per cent in 2004-05, as the improvement in onshore economic activity in recent years gains momentum. Offshore oil production from Laminaria-Corallina is forecast to fall by 30 per cent in line with a typical oil well production profile. However, the impact of weaker mining sector output will be offset as a full year of condensate production from Bayu-Undan stage one comes on stream.

### Engineering Work

Engineering work for Bayu-Undan stage two will be the key driver of Territory investment in 2004-05 as the investment impact of the railway, East Arm Port and Bayu-Undan stage one comes to an end. With capital investment of around \$2.8 billion, the Bayu-Undan stage two LNG plant and pipeline is the largest project ever undertaken in the Northern Territory. Investment for Bayu-Undan stage two will have a much stronger, positive impact on the onshore economy than construction of the offshore structures for stage one. The construction phase for Bayu-Undan stage two will take almost three years to complete and will employ around 1 200 people during peak periods. First LNG exports from the Territory are scheduled for 2006.

### Exports

External demand for Territory products is expected to improve in the short term as the global economy strengthens and national growth maintains a solid pace. Improving external conditions should act to boost demand for Territory exports, including international tourism, which has been adversely affected by recent global events. Exports will continue to be dominated by mineral and energy production, but strengthening international tourism activity, with its stronger linkages to the onshore economy, will have a greater impact on onshore activity and employment. The major risk to the export outlook is the strength of the Australian dollar, which will act to undermine the Territory's competitiveness in international markets.

### JPDA

For national accounting purposes, the Joint Petroleum Development Area (JPDA) is to be classified as a separate country and Bayu-Undan production will not be included in Territory international merchandise exports. However, 50 per cent of condensate production from Bayu-Undan stage one in the JPDA will be attributed to the Territory economy in the State Accounts. Accordingly, Bayu-Undan stage one will have an impact on measured income and therefore Territory GSP in the 2003-04 estimate year and the 2004-05 forecast year. Nonetheless, like other offshore oil fields the income (largely gross operating surplus) attributed to the Territory provides only limited benefit to the onshore economy.

### Private Consumption

In the Territory, growth in private consumption is set to moderate in 2004-05 after peaking in 2003-04. Some easing back was to be expected after three consecutive years of strong growth, but low interest rates, employment growth and increased demand for household items related to a pick up in dwellings construction should continue to underpin expenditure. Consumer confidence will continue to play an important role in determining how strongly retail sales and other consumption expenditure grow. As population growth picks up, private consumption growth can be expected to strengthen further. However, after providing strong stimulus to the economy during the mid to late 1990s, public consumption growth is expected to weaken.

### Residential Investment

Dwellings investment is forecast to make a positive contribution to Territory economic growth in 2004-05. Vacancy rates have come down to a level approaching equilibrium and, as a shortage of stock develops, the upturn in residential construction will gather momentum. However, to the extent that various incentive schemes pulled demand forward, the upswing in the Territory housing cycle is likely to be more muted in the short term than would otherwise have been the case. A risk to the longer term outlook for dwelling construction activity is the strength of population growth and rates of new household formation in the Territory.

### Business Investment

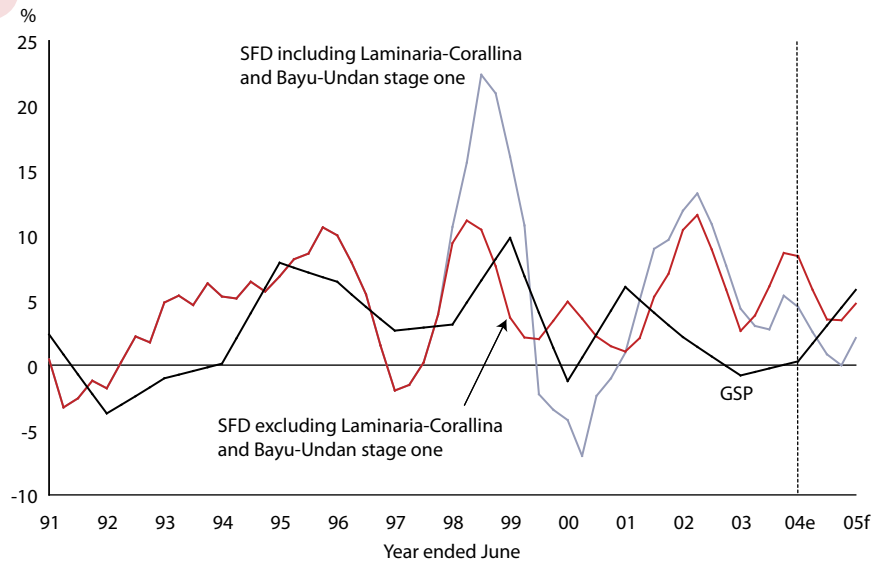
Business investment, which has been an important driver of growth in the past few years is expected to flatten out in 2004-05, although remaining at a very high level. Peak construction periods for Bayu-Undan stage two will provide a significant boost to the local economy in 2004-05. Activity for this project will generate significant and localised flow-on benefits, with local contracts and employment associated with the project acting to underpin economic activity, supporting consumer confidence and business sentiment. Non-residential building activity is forecast to strengthen as work continues on a number of office, retail and hotel developments already underway and work commences on infrastructure for the formation of the 1<sup>st</sup> Aviation Regiment to Robertson Barracks.

Stronger consumption and investment will be occurring while population growth remains quite weak, with population growth forecast at 0.3 per cent in 2004-05. As employment prospects strengthen, the extent of interstate migration outflows is expected to fall, contributing to population growth. Employment is forecast to increase by 2.9 per cent in 2004-05, boosted by strong construction activity and a pick up in tourism.

### Railway

The operational phase of the railway, which commenced in early 2004, will provide an important link to southern Australia for freight and passenger services. Combined with the new East Arm Port, the railway has the potential to see Darwin develop into a nationally important transport hub, with significantly increased land-to-sea international freight. The Ghan passenger service to Darwin will also benefit the tourism industry, with an estimated extra 16 000 passengers travelling to the Territory each year.

Chart 2.3: Territory SFD and GSP (chain volume, annual percentage change)



Source: NT Treasury, ABS Cat. No. 5206.0, 5220.0

In the longer term, the operational phase of the railway should also help create a more robust and competitive Territory economy. One major impact flowing from a reduction in freight rates will be falls in the cost of living and conducting business throughout the Territory. Increased competitiveness of Territory business is expected to stimulate industry investment and result in a further diversification in economic activity, job opportunities and stronger population growth.

## Economic Growth Prospects

Over the medium term, prospects for Territory economic growth are positive. Construction of the gas pipeline to shore and the LNG plant at Wickham Point is expected to take another 18 months, with production expected in early 2006. The defence force plans to relocate an army helicopter regiment to Darwin, and there are a number of resource projects in the feasibility study stage. The most advanced of these is the proposal to expand alumina production at Nhulunbuy. Investment for this project is estimated at \$2.5 billion and would involve construction of an offshore gas platform for the Blacktip gas reserve near Wadeye and a 500 kilometre pipeline to Wadeye. A final decision for this project is expected in mid 2004. A further project on the drawing board is for a zinc metal development at the McArthur River mine. The energy production outlook for Territory-administered and adjacent areas in the Timor Sea is positive. Oil production will dominate in the short to medium term, while gas extraction and manufacturing could dominate in the longer term, with LNG production scheduled to commence in 2006.