

My name is Mike Doyle – I am the new President of the Canadian Association of Geophysical Contractors (CAGC). My background is in Industry (Kledo Construction) and as well 5 years of Association service including 2 years as the CAGC Chairman. The CAGC represents the business side of the seismic industry with over 250 companies as members representing a workforce of over 10,000. I invite anyone interested to view our website at www.cagc.ca

A special thanks to Doug Uffen and the Executive of the CSEG as we have embarked upon exploring synergies between our Associations. We plan on contributing a monthly column to the Recorder in an effort to discuss the issues and challenges affecting the acquisition side of the seismic business. We hope these articles bring insight and perhaps introduce some controversy. Feel free to comment through the Recorder or directly to myself at mjd@cagc.ca.

Geophysically speaking – The State of Seismic

The topic of the day – whispered quietly in the hallways – but with great fear in the public eye. These are excerpts from qualified experts in the North American industry in an effort to provide a balanced presentation. The solutions must come from within our own businesses – we must value ourselves before others will value us. And so the dialogue begins.

From Banc of America's September 6th Research Brief – "A Seismic Dilemma – Seismic Companies' Unsustainable Business Model":

"The seismic industry has been financing R&D and technology development for their major oil company clients, putting their balance sheets at risk for clients with little loyalty or recent interest in buying. The seismic industry has to quit financing its clients. It has to focus on returns on capital. Period. The "need to be liked" cannot be a viable business model for the industry."

From the IAGC, Houston, Texas, May 8, 2002 – "IAGC Takes First Steps to Address Commercial Issues":

"Developments in seismic technology are widely regarded as some of the most important contributions to the improvement in exploration economics over the last decade. These developments are a result of years of effort and millions of dollars invested in research and development, yet financially, the geophysical industry has been one of the worst performing sectors of the oil and gas service industry," said IAGC President Chip Gill. "As an industry we have been a vast consumer of capital that has been largely unsuccessful in capturing a reasonable value for the technology that we develop and the other benefits, such as non-exclusive data libraries, that we bring in reducing exploration risk for our customers," added Gill. "A financially healthy geophysical industry is essential to the E&P industry as a whole," according to Gill. "Yet for each of the last six years, the geophysical industry has delivered negative cash flows."

From the Daily Oil Bulletin, August 26, 2002 – "Doom And Gloom Envelopes Geophysical Sector":

"Geophysical companies may disagree as to why, but few would argue activity levels this year are down sharply from the highs of a year ago, idling crews and creating downward pressure on pricing. "It's down I would say well over 50% from last year. After the winter season it just tapered right off," said WesternGeco's Lloyd Whelan, manager, Canada South. "I've been working in this business over 30 years and I've never seen it this slow. From the large [companies] like WesternGeco down to the small companies, everybody is pretty much affected."

From the Daily Oil Bulletin, September 24, 2002 – "Prolonged Slump Putting Geophysical Sector At Risk":

"Seven consecutive years of losses, cutthroat pricing, increased regulation and resistance to change among clients are putting at risk the very survival of the Canadian geophysical sector, say industry officials. The last up cycle in the oil and gas industry passed right over the geophysical sector, wages have stagnated, geophysical companies aren't investing in new equipment and downsizing and consolidation is expected, says the Canadian Association of Geophysical Contractors. An industry that dramatically improved drilling success rates with the advent of three-dimensional seismic, the sector can

no longer fund research and innovation and is undergoing a brain drain, officials say. And while it blames its own members in part for bidding on projects at a loss, the association also accuses many oil and gas companies of taking advantage of the situation in a bid to lower their own costs. Cut-rate prices now, however, could gut the Canadian industry and leave exploration and development companies without trained crews when they are needed, the association says. "What the oil companies might be saving in money today, in the long run they will pay for in the sense that there will be less capacity and their rates will be far greater," said CAGC past chairman Mike Doyle. His company, Kledo Construction Ltd., has seen its geophysical-related business decline to 20% from 80% in recent years. "If you knock the legs out of the industry, then when there really comes a great push when reserves have to be replaced our own Canadian industry won't be here to do it."

And the snippets in the media go on and on – commentary from CEO's of the largest companies involved in seismic, articles by professional geophysicists and engineers, and those in the media who have an understanding of the big picture. From a fundamental standpoint our industry faces its day of reckoning. The phoenix scenario - how will we survive as a Canadian Industry; how do we rise from the ashes and convince our clients of the value of our service?

A further insert from the same Banc of America document:

"It is an interesting conundrum that the oil and gas industry's biggest complaint is the lack of quality drilling prospects and the seismic industry, with the technology to dramatically improve prospect quality, is on the verge of bankruptcy. The reasons for the disconnect are not readily obvious. The average age of the geoscientist in the oil business is 47-48 years. Imagine a technology company where the average age of the <.....> computer "geek", was that old. And few geoscience programs at universities have expanded considering the volatility in the industry over the past fifteen years."

I close with these comments - The challenge is to engage others in the discussion. It is time to spread the word and enter the debate. Each of us must assume responsibility for a small piece of the problem and work towards creating a new attitude for all those engaged in the business of seismic and in particular in creating value in the minds of the clients of the seismic Industry.

Lest there should be any doubt. From the Daily Oil Bulletin, October 16, 2002 – "WesternGeco Closing Land Seismic Operations"

"This morning, Calgary-based Scott Totten, the company's Canada land operations manager, confirmed WesternGeco will shut its land seismic operations in the United States and Canada. Lack of profitability is behind the move. "We cannot be profitable here with the way the pricing is," Totten said. "We've put a lot of money, millions, into research and development, and that obviously drives our costs up above somebody like a local seismic company that doesn't have any R&D or (our) overhead. And we're not getting paid for that. "He said WesternGeco management made a decision to discontinue operations in areas of the world that are no longer profitable. The current plan is to complete the closure by the end of December."

In the upcoming months we'll use this column to continue work on building closer ties between the CSEG & CAGC. Next month I will talk about the evolution of the geophysicist – the disconnect with the field – the lack of intimacy with the data. Stay tuned.

From The Thursday Files, Mark Twain once said, "If you pick up a starving dog and make him prosperous, he will not bite you. This is the principal difference between a dog and a man."