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As this article prints, we will be halfway through the winter season. This season is both the saviour and the bane of our industry sector. In my next three columns I will explore the macroeconomics of the Canadian Seismic Industry with a high level brush of the contributing factors.

I don't think you will find anything too surprising in this discourse. Our industry suffers from a number of relatively standard effects that intertwine in a complex manner and create shifting balance. Some might argue it mirrors chaos theory to a degree but a more accurate definition is the need for the free market to continue to return to a state of chaos to ensure the best models continues to evolve and survive. Therefore the lesson here is to never get too comfortable with your business model, as it is quite possible that next season it will be outdated.

The Canadian market works on two important factors – First we provide enough supply to ensure that we can easily handle the peak quarter of January through March. This column will talk about this first factor. Of course the problem with this model is what to do with the excess supply during the other 10 months. For a visual of this effect have a look at the website of one of our member companies - Explosives Limited - Here the crews are tracked on a monthly basis with 13 months being shown at any one time.

<http://www.explosives.com/packaged/seismic/SeisActive.htm>.

The number of crews used to be the most important factor in measuring our business. This is not the case anymore. In the past few years we have seen large 3-D's become as prevalent as 2-D's. In effect causing fewer crews with greater channel capacity. What is the current channel availability in Canada then? For a quick snapshot have a look at another one of our member company's website – Lornel Consultants –

<http://www.lornel.com/December%2001Contractor.htm>

As I write this article in late 2002, this listing was last updated in September 2002 and as such there have been some changes as with the closure of WesternGeco's land acquisition arm. However it suggests there are still some 120,000 channels of availability within the Canadian market. Even given allowances of some "positive speak" by our contractors the number certainly is greater than 100,000.

So is this the correct number for future measurement? Likely not alone - as with the dynamic marketplace we have seen the creation of rental companies who are able to move equipment in and out of the market in an efficient and almost in a perfect free market demand and supply manner. These companies literally have the ability to double the channel supply in the market.

The other element of supply is the number of acquisition companies. This has been a number that has fairly consistently remained around 20 through the last decade. There was at least one historical adjustment when the number ran around 30 in early years however the number of companies currently seem to have had great inertia – when some fall out, new ones are reborn. As this article is written, we have 19 left in Canada of which 2 are only offshore oriented leaving 17 land oriented companies. This coming year should define the limits of inertia. Perhaps a market adjustment will bring the number down to stay. Time will tell.

The model of public or private ownership doesn't seem to have a lot of direct effect on success or failure. It is safe to say that a public model provides access to a greater capital base in the beginning but a price is paid for that. Public entities are subject not only to industry downturns as perceived by investors but also by market downturns. Certainly one doesn't have to look too hard to find value in the prices of publicly traded seismic companies these days but the challenge is always to get the greater investment community to align with this perception.

Private ownership allows for greater personal synergies in the sense that individuals can grow the

company to the size of their personal comfort level and manage it in that niche on a go-forward basis. Certainly no secret but by itself the greatest driver of successful private business in any marketplace – to achieve and then operate within a specific size and niche – not to be the biggest or the best at everything – just to deliver value and good workmanship within their parameters.

So supply consists of a number of factors. If a small operator can make their money in the winter season while quietly existing through the rest of the year and rental companies can ebb and flow the equipment then supply can be viewed as almost perfectly elastic – the bane of medium and larger acquisition companies. Then the second factor – the one that dictates survival or demise – is the pricing structure.

The next column will deal with the second factor – pricing structures – as they relate to turnkey versus hourly, front end management companies – friend or foe, proprietary versus speculative seismic including the release of seismic data into the public domain, equipment value as it relates to depreciation versus retooling, the cost of regulatory compliance within Canada as it relates to the global market thus causing positive and negative consequences, and the cost of safety – who pays and how much.

A special thanks to Doug Iverson with Outsource Seismic Consultants for providing valuable input into the current pricing structures our market is faced with these days. The Acquisition Companies now comprise only between 20 and 25 percent of a seismic job yet still often carry the majority of the bankroll and in some cases also the Prime Contractor responsibilities. This is an interesting statement to serve as a backdrop for the next instalment of the CAGC Column.

In a final column we will bring all of the complex factors together to discuss them as they relate to real life models in a general sense. I think it is safe to say that every model has a chance to be successful and therefore the challenge is to recognize when the model must be adjusted, repaired or changed all together given the current market conditions.

I encourage your feedback through Letters to the Editor – also visit us at our website – www.cagc.ca - our past columns will be posted there

From The Thursday Files:

You do not really know your friends from your enemies until the ice breaks.

- Icelandic