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I received a phone call early this year from an investment banker asking to gauge the industry and in particular seismic for the coming year. This is a relatively common occurrence in January of any year but usually the calls come from the media. Looking back - 2002 was the worst year in decades for the seismic industry despite being a reasonable year for the Oil Industry as a whole. Statistics for the Oil Industry show it to be similar to year 2000 but seismic was far below the average. However 2003 is setting up to be a better year for seismic. The numbers indicate an upsurge in the business of seismic, the E & D budgets are better overall, much of the uncertainty with the Kyoto situation has dissipated for the time being, the commodity prices remain strong and in general there is a sense of optimism in the streets.

Thus this is a good lead-in for the second part of "The Business of Seismic in Canada" set of columns. As with any commodity supply and demand is driven by the pricing structures. Not only is pricing important in itself but often there is a sense that the market has a set amount of cost it will bear. Therefore if other factors erode the total pie there is less for the actual seismic portion of the work. For example one such factor would include regulatory and compliance issues. In fact even the cost of safety takes its toll on the overall budget.

We, as an Association, often deal with all levels of Government on the issue of regulations and compliance. Governments rarely go backwards in terms of requirements. Thus the requirements and the costs tend to layer on one another. In some jurisdictions, a one-page application 10 years ago could now be fifty or a hundred pages in length. Each year more and more groups become stakeholders. Time and effort in these matters cost money. We bring the point to bear with Governments that money is fluid and travels the globe – dollars in a particular area of Canada compete for dollars in other parts of the world.

To some degree the complications of doing business in Canada has fostered experts in such fields. At one time business was conducted between a geophysical data recording company and an Oil Company. The business of seismic was simple enough – thus the term "Prime" was used to describe the geophysical company. As the business became more complicated front-end companies were created to fill a niche, offering a specific service and level of expertise. Today front-end companies have become geophysical land and field service companies offering a gambit of services surrounding the business of seismic.

Sometimes a certain animosity exists between these entities. The Recorders (of data) have given up some control of the process and certainly the Service companies take a portion of the seismic dollar. But there is somewhat of a symbiotic relationship as without the Recorders the Service companies cease to exist at least in the fashion they do today. So the challenge of the Service companies is that once they have made their mark in the market – as they now have – they too must ensure the business of seismic remains a going concern for the Recorders.

In the past 5 years we have seen a greater emphasis towards spec data rather than proprietary. Figures in the market have suggested that spec seismic as a percentage of total seismic is a number that has steadily increased. This has had pluses and minuses. It reduces the cost to the Oil Companies through multi-client projects, which in the scheme of a total seismic budget allows for more shoots. It is better for the environment – shoot an area once until new technology calls for reason to re-shoot. In some cases it allowed the seismic company to own the data asset. On the downside though there existed a lack of valuation on the asset. This affected some companies that relied heavily on the data as an asset. It forced Recorders to work new jurisdictions, as programs weren't shot in the same frequency over the same ground. It created different business entities – pure spec, mixed spec/recorders as well as the pure recorders. Don't look away too soon – your competition may become your client!

As with all things, the ability to obtain recording equipment became easier. Rather than a large asset requirement leasing became commonplace over the past decade. Not only did this allow more players but it also put pressure on the bid – generally downward pressure. Depreciation in a cost structure

allowed for retooling – replacement of the equipment in the future. This can be viewed in many ways – leasing allows pay as you go, even ownership structures with asset costs stretched out over a lengthy period of time allows one to virtually remove the element from any bid structures. Not a far stretch to force most companies there.

At one time hourly bids were the way to go. Everyone could make a buck and the risk was passed onto the client. Today turnkey is the rave – the risk is removed from the client – but the carrot is there for the provider – a chance to do better. Some feel it keeps the companies with higher overheads at bay. It emphasizes the classic struggle for balance between risk and reward.

Today a typical seismic job gives up about 25 % for the Recorder, a similar percentage for the line cutters, a similar figure for landowner and compliance costs, with the final quarter being divided amongst the land and field service companies, the surveyors and the drillers. The interesting thing to this all is that there are times the Recorder still bankrolls the majority of the job as a go-between between the client and all the other service providers as the Prime Contractor.

One column is rather short to provide justice to the complexity of all of these factors but hopefully it is enough to provide a high level brush of the pricing factors. In the final column I will look at supply and pricing as they apply to our real market of today. What is driving things these days? What does the future look like?

I hope you find some value in these columns. I enjoy writing them and thank the CSEG for their continued indulgence.

From The Thursday Files: Experience is a hard teacher. First comes the test, then the lesson.  
(Anonymous)