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Well, with the turn of December, winter is here in Canada. High commodity prices continue to drive activity in the marketplace. The Associations representing the big rig drillers are calling for over 24,000 wells this coming year – another record. In fact they recently announced a 10 to 12 % increase in their prices and they did so through the media. Seismic prices have been stuck at about the same prices for the last 10+ years. Don't get me wrong, the contractors are often their worst enemies. In any case the seismic pie is divided up these days and the seismic contractor takes home less than 25 % of the job. Some other things that contribute to internal price increases in our business include the line widths getting narrower and not having equipment to meet the needs of the narrow lines. In some manner then any increase in the cost of seismic usually comes as the result of external factors that do not help the seismic contractor.

The business of seismic has changed drastically in the last decade. There was a time when the seismic company handled all of the work – from permitting to clean-up. Now we often look at a seismic job as at least 6 different job cycles. There are always more contractors that that with service and supply support. The 6 main facets are scouting and/or permitting, surveying, shot hole drilling, line cutting, RECORDING, and then a clean-up and/or reclamation phase. Often the line cutting makes up the largest portion of the job sometimes getting close to 30 % of the revenue. The recording sits about 20 to 25 depending upon the job and despite being the crucial element to the process, continually receives the short-end of the stick as it relates to any price increases.

There was a time when the Recorders were know as the Primes and controlled all facets of a job. Over time this changed. I suspect in a dog eat dog world, trying to run all of the operational facets was challenging if there was no mark-up for it. Perhaps the work done on the other facets became less than perfect. Whatever the reason, over time clients saw fit to use project managers who in turn found greater control by dividing the work into each work unit. Thus the world we live in now – one with clients in control sometimes, one with project managers sometimes, one with seismic companies sometimes and then everything in-between.

This type of world is not a bad thing. It certainly has allowed the various services to take care of their own bottom line. We have seen somewhat consistent increases in most areas over the years perhaps with the exception of the shot-hole drillers themselves and the recorders. These two areas seem to take one step forwards and then two back. There is always someone within the group who is willing to buy the first job of the winter thus setting the low price for everyone to start at. Generally this improves as the work demand ramps up. The point is the yearly cycle seems to ensure we get back to the bottom to start again.

We have 19 Land seismic companies right now. That may include one that is dropping out but it also includes two more than have started up here in Canada this year. So despite

it being tough out there, there doesn't seem to be any barriers to entry and the potential rewards enough to lure a few more players.

The future holds promise though (we are eternal optimists). I believe that the geophone holds promise – the data is better and we look to the processing side to do more with it. I think there is no doubt we will push into the frontiers in the years to come – northern Canada to lead the way. We have also pushed for transferable royalty credits in BC for heliportable seismic. I believe this will encourage better practices in general while at the same time perhaps encourage greater interest in the foothills and other basins.

Finally a quick note on the line widths. With the Alberta Government rebate of 50% of Crown dues on timber for LIS seismic, there was no doubt a drive to smaller equipment. We see the average line width today somewhere less than 3 metres. This comes with a cost as the equipment always lags behind the demand. We have caught up now but the lines look to go narrower pushing below 2 metres in the times to come. We have to tread carefully as safety and evacuation of personnel becomes paramount issues with such lines. This will be the scope of one of our Best Practices in 2005 – to look at the line widths and associate all the risks and costs with such lines – not in a way to dictate what widths should be but rather to ensure companies make decisions based on standard criteria when considering such programs.

So a prosperous and safe winter to all. And kudos to those big rig drillers.

From The Thursday Files:

The winds and waves are always on the side of the ablest navigators.

- *Edward Gibbon*