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- Sign above a table used for crystal ball gazers, tea leaf and tarot card readers

\$147 oil? \$40 oil – all in a 6-month period? Who would have predicted that? One thing about predictions – no one has to be accountable. Even publicly-traded companies make “forward-looking” statements disclaimed as such. My counterparts in other Oil and Gas Trade Associations have prognosticated cautiously negative forecasts for 2009. Most of us agree that Quarter 1 should still be decent but after that who knows (see the closing quotation to this article).

Look to 2009 and beyond as a sea-change in North America. Its not only about economics and capitalism, it's about the way we as Governments and People think and operate. Have we seen the failure of capitalism in 2008? The Mother of All Bailouts ... which one was that? The Auto Industry? – No! - The big one really was the bailout of the bank systems worldwide. The financial system is the core of any civilization in today's world. How can banks go bankrupt? Banks? – What about countries?

The country of Iceland went bankrupt in early October 2008. What ‘bankrupt’ means is just that: The country cannot pay back its external debts, and the Icelandic currency, the krona, has become essentially valueless in the rest of the world. That means the country can no longer pay for imports. So take it for what it means – countries can carry as much debt as they like as long as their currency value holds up. The USA with trillions in debt is OK as long as the world continues to value their currency. And since we are all in it together, if they fall so do all of us. Think of it as a high-stakes game of “Prisoner's Dilemma”.

The Auto Industry Bailout is an interesting one. There are always two sides to any debate. This certainly is not the first time Governments have stepped into what once was private industry. Governments worldwide bail out their Airline Industries time after time. One might suppose it is considered national interest to ensure that some type of air transportation continues. Perhaps a more prodigious example is that of the food industry. Governments in have-nations continue to subsidize their own food production – arguably at the cost of third world nations who might otherwise produce food at a higher cost to export to benefit themselves. Once again this might be argued to be in the national interest. Is an Auto Industry bailout in the national interest? This will be a very interesting question seeking an answer as countries around the world are doing the same thing – bailing out their own Auto Industries.

Bailouts eventually cede to the market. Airlines fail and/or get bought out so there are fewer players in one country. The food system is changing dramatically. The “fat” society is changing its values and better more expensive food is becoming OK. Sin taxes on sweets, soft drinks and snacks already exist in states such as New York and California. Vending machines carrying these products are systematically being kicked out of the public education facilities across North America. Changes moved the Canadian Wheat Board in 2007 from its marketing monopoly for barley and wheat and are indicative of

ongoing structural changes. The move towards bio-fuels has increased prices as the crop land has competing uses now –for different end markets. So the final outcome in the Auto Industry is far from playing out one way or the other.

The Oil and Gas Industry has really been knocked down a notch or two over the past couple of years. There was a time a couple of years ago when CAPP signaled it was losing traction with the Governments and began working closer with many of the service and supply Trade Associations in bringing more of a grassroots message to some of its lobbying efforts. This was further emphasized over the Royalty Review under which massive public sentiment whelmed up against the Industry despite many of those same “public’s” working directly or certainly indirectly for the Oil and Gas Industry in the Province of Alberta. We are seeing this transpose itself into reducing our lobbyist effectiveness. Governments are pushing industry back more and more based on public sentiments. In Alberta Stelmach kicked seismic off lakes in the fall of 2006. We have lost ground in the riparian areas around the OilSands. Stelmach has slowed OilPatch work to a crawl with the introduction of the Royalty Review which not only covered OilSands but also Conventional Oil and Natural Gas. In an odd manner it is a bit of a schizophrenic government – well, at the very least a populist government swaying back and forth depending upon the signals from the public. Slowing industry growth to the point where for the first time in history Provincial Land Bonuses paid to the Alberta Government was less than either BC or Saskatchewan potentially foreboding a continually quiet future for our Industry in Alberta. Drilling in Quarter 2 of 2008 fell to 56% in its share of the well activity with other Provinces. Historically this number is around 70 %. Alberta faces the real possibility of running a budget deficit in 2009 and having to dig into the Heritage Fund. Who would have thought that was possible a year ago?

On the other side of the coin Stelmach travels the world to market the OilSands. This strikes me as odd. Obama has appointed Steven Chu for his Energy / Environment Secretary – no doubt a sea-change in the way the USA will view its Energy Policy. The OilSands only accounts for about 2.5 % of the USA energy use at this time. It does however represent 50 % of the Oil produced in Canada and that number is climbing as conventional oil production falls off and OilSand’s production increases. So thus the ability for Obama to truly pontificate against High-Input GHG Energy Sources but also thus the need for Canada to take Obama seriously. Breaking the reliance on foreign oil has been a favourite target for a number of USA Administrations without any real headway at all. Perhaps that will change with an Administrative focus on Renewables and the threat over our heads of doing a better job environmentally in areas such as the OilSands.

From an Industry’s perspective we need clarity; we need Governments working together rather than layering on of regulation (i.e. Provincial and Federal Climate Change Policies) and ultimately we need to be aligned with the USA as our single biggest customer.

From the Thursday Files

By this time next year, we could be booming or in a recession, fighting inflation or verging on deflation, be in a bull or a bear market.

- Myles Zyblock, RBC Dominion Securitie