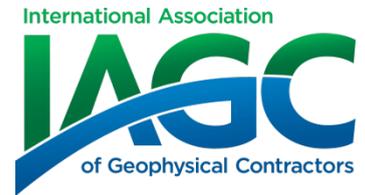


Statement of Principles

Reverse Auction / E-Commerce Bidding Procedures



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This document includes the Statement of Principles, a description of the commercial conditions and contractual language.

Key Words:

- Client
- Contractor
- E-Commerce
- Geophysical Services
- IAGC
- Intellectual Property
- Reverse Auction
- Tender
- Third Party(ies)

Terms that are in bold type are defined in the Glossary of Terms which forms part of this family of Statements of Principles.

Statement of Principles

- **IAGC** is in favour of **E-Commerce** procedures provided it results in a reduction of overheads and improves the overall effectiveness of the seismic **Tendering** process.
- **IAGC** applauds any initiative that weights the award of **Contractor** services on the optimum combination of personnel, technology, HSE expertise and cost.
- **Reverse Auctions** are not appropriate for the bidding process of complex **Geophysical Services**, since they do not encourage the optimum **Tendering** for a particular survey. This process requires careful research to enable the calculations necessary to provide the most efficient and cost effective solution. Therefore they should not be used for procuring **Geophysical Services**.
- Any **E-Commerce** bidding procedure used should contain demonstrable assurance, open to audit if necessary, that the data contained in the bid, including **Intellectual Property**, is kept totally secure and confidential at all times and exclusively for the use of the **Client** concerned and not further distributed to **Third Parties**.
- In the event that a **Client** advocates the use of a **Third Party E-Commerce** system in the bidding process, any costs of either usage of or membership to this **Third Party E-Commerce** system, should be the sole responsibility of the **Client**. In this way, any initial cost increases to the bidding process are minimized on the part of the **Contractor** and any unnecessary burdens removed, especially those that may preclude smaller companies from participating in the **E-Commerce** bidding process.
- **IAGC** believes that any **E-Commerce** bidding process used for the contracting of **Geophysical Services** should facilitate and encourage the offering of alternate proposals that can both benefit E&P customer requirements and add value to **Contractors'** ability to continually invest in essential HSE, personnel training and research and development of new technology.

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- Ultimately, it remains the decision of each individual **IAGC** member company to decide if they wish to participate in the **E-Commerce** process, especially if this involves the use of **Reverse Auctions** in the Bidding process.

Commercial Context

Over the recent past, there has been an increasing trend by **Clients** to use e-Bidding methods within the overall category of **E-Commerce** procedures. The objective for this trend has been repeatedly stated by multiple **Clients** as an improvement in the efficiency of the commercial bid process. However, two key factors seem to have changed the dynamics of the situation. The recent restructuring and consolidation of the **Clients** has resulted in further concentration of purchasing power and more aggressive exercising thereof by the procurement departments of these **Companies**. In addition, National **Clients** have come to procure a greater and greater percentage of global **Geophysical Services**. These factors have resulted in an increased focus, within the bidding process, on the lowering of cost as the main criteria for the award of **Geophysical Services**. The use of the **Reverse Auction** process has occurred in some cases to further reduce costs and select the lowest price **Contractor** for a particular bid award. In a typical **Reverse Auction**, an E&P company puts a **Tender** for services out for bid, either using specialized software or through an online marketplace. Multiple **Contractors** are asked to offer bids for the **Tendered** services that meets all of the specifications of the **Tender**, but to do so in a process which gives them the chance to see the lowest price offered by any of the **Contractors** participating in the **Reverse Auction**. Participating **Contractors** then have the chance to match or beat the lowest price offered by their competitors. As the auction progresses, the price is only allowed to ratchet down, as **Contractors** compete to offer lower bids than their competitors. In this manner the **Client** seeks to achieve rapid downward price pressure that is not normally attainable using traditional static paper-based **Tendering** processes.

Increasingly, **Clients** are engaging in pseudo **Reverse Auctions**, where they engage in the traditional static paper-based **Tendering** processes. But once bids on the **Tender** are complete, the **Client** engages in a phone campaign informing one or more **Contractors** of the lowest price offered in the **Tender**, and giving them the opportunity to beat that price. This type of **Reverse Auction** has been known to be pursued for multiple iterations.

In the opinion of the **IAGC** membership, use of the **Reverse Auction** process to select a **Contractor** to provide **Geophysical Services**, arises from an incorrect view that **Geophysical Services** are essentially a commodity whose principal discriminator is price, and that insufficient importance is attributed to variations in crew experience, technology, equipment, HSE and quality. **Geophysical Services** are not a readily fungible good with easy substitution for vessel safety, data quality or experience.

Third Party software or **E-Commerce** providers have also been employed by **Clients** in the **Reverse Auction** process and it has been proposed that eligibility for a particular bid, plus any associated cost of this **Third Party** software system, should be the sole responsibility of the geophysical **Contractor**. The position of the **IAGC** membership is that the cost of procurement systems are appropriately paid by the **Client Group** which is gaining economic advantages from the system.