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.
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.