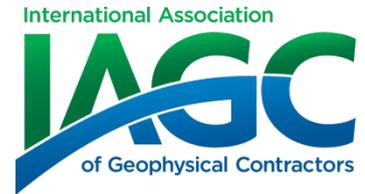# Statement of Principles
Derivative Products

This document includes the Statement of Principles, a description of the issues (with examples) and contractual language.

Key Words:

- **Consultant**
- **Contract**
- **Data Owner**
- **Derivatives**
- **IAGC**
- **License Agreement**
- **Licensee**
- **Multi-Client**
- **Partner**

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

Geophysical contracting companies invest hundreds of millions of dollars each year to acquire, process and develop non-exclusive (**Multi-Client**) data products. These data products significantly improve exploration & production success rates and also lower the cost of finding and developing new oil and gas reserves, all at a fraction of the cost of exclusive proprietary ownership.

Under the non-exclusive (**Multi-Client**) model, geophysical contracting companies initiate and conduct data acquisition and/or data processing projects, of general interest to the E&P industry, at their own financial risk. Individual E&P companies are then offered a limited license to use the data products at a fraction of the cost of acquiring and/or processing the data. The viability of this model depends not only on the geophysical contracting companies' ability to earn a reasonable economic return through licensing the data products; the geophysical contracting companies must also be able to earn a reasonable economic return through licensing **Derivatives** of the data products (also known as derivative products). Derivative products are important in that, in and of themselves, they can generate substantial revenues and they also help extend the sales life of the data products. Accordingly, a geophysical contracting company's failure to retain ownership of the derivative products undermines the economic value of its data products (and therefore its investment in such underlying data).

Legal and Operating Framework

Non-exclusive (**Multi-Client**) data **License Agreements** typically convey to the **Licensee** limited rights to use both the data and **Derivatives** of the data. In such agreements, "derivative(s)" is generally defined as any and all products derived or created from the data, including processed, reprocessed or interpreted data, regardless of the form or medium on which the derivative product(s) is displayed or stored. In addition to the contractual right created by the **License Agreement**, under many jurisdictions, **Intellectual Property** law grants the owner of certain **Intellectual Property** the exclusive right to create **Derivatives** of the originally created work. Under such **Intellectual Property**, a

"derivative" is broadly defined as a work that is based on or derived from a preexisting work. E&P companies have occasionally sought ownership over derivative products. However, it is clear that in many jurisdictions, geophysical contracting companies have the right to retain exclusive ownership over derivative products, whether by operation of the **Contract** or intellectual property law.

Note that Licensor's rights to the derivative products do not include **Licensee** Interpretations in the **IAGC** Master License Model Agreement. **Licensee** Interpretations in the Model Agreement are defined as products created by **Licensee** or its **Consultants** that are based upon space and time location of the Data and/or **Derivatives** but do not directly incorporate actual Data or Derivative values or magnitudes. The **Licensee** is allowed to own and distribute freely the **Licensee** Interpretations. However, confidentiality and limitations of use shall continue to apply to all Data and **Derivatives** underlying the **Licensee** Interpretation.

Actual Examples of Inappropriate Disclosure of Non-Exclusive Derivative Products

An E&P company requested a quality inspection of 3D non-exclusive data for the purpose of determining whether to license the data. During the data inspection, the E&P company representatives marked the locations of bright amplitudes on a map that they brought to the meeting. In addition, they requested to verify specific prospects. These requests and actions are outside the guidelines of a quality inspection, and the licensing company denied the request and confiscated the map with potential prospects identified.

- An E&P company commenced a reprocessing project to merge and reprocess two separate but adjacent 3D surveys. One of the 3D surveys was a non-exclusive data set licensed by the company and the other was a proprietary data set owned by the company. Upon completion of the reprocessing effort the company delivered the reprocessed project (containing both the licensed and proprietary data) to their **Partners**. This is a material breach under the terms of a license and equates to a direct loss of license revenue for the **Data Owner**.

- After reprocessing a licensed non-exclusive dataset, the E&P company attempted to sell the reprocessed volume to other E&P companies to recoup their processing costs. This is a material breach under the terms of a license and equates to a direct loss of license revenue for the **Data Owner**.

IAGC Principles Regarding Derivative Products

- Data use **License Agreements** cover the right to use the data product and any **Derivatives** thereof.

- "**Derivatives**" or "derivative products" should be defined in a data use **License Agreement** as broadly as needed to adequately protect investment in and the value of a data product.

- If a situation arises where a **Licensee** seeks to limit the definition of derivative or derivative product (as defined in the data use **License Agreement**) such that the **Licensee** can obtain ownerships rights to a kind of derivative product, rather than oblige such a request, the definition of derivative or derivative product should remain as broad as needed and instead an exception to the definition may be created solely to limit the potential resale of **Licensee** created data products by **Data Owner**. Such a narrowly crafted exception should be designed to meet the needs of the **Licensee** while still ensuring that the **Data Owner** doesn't lose any economic value in its data product.