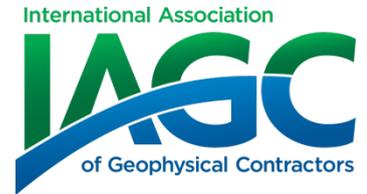


Statement of Principles Non-Exclusive (Multi-Client) Geophysical Data Licensing



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

Statement of Principles

Key Words:

- Contractor
- Data Licensing
- Data Owner
- Geophysical Data
- IAGC
- Intellectual Property
- License Agreement
- Licensee

The non-exclusive (multi-client) geophysical **Data Licensing** business model has overwhelming economic advantages for all parties involved, including host governments, E&P companies, and geophysical companies. The purpose of this Statement of Principles (including appendices) and the related **IAGC Model Data Licensing Agreement** are to disseminate accumulated knowledge about the multi-client business model, to promote a more efficient, lower cost contracting process, and to help minimize disputes and misunderstandings during the project term through contracts that comprehensively cover all relevant issues with precision in contract terminology. Many of the key issues are specifically covered in the **IAGC Model Data Licensing Agreement** while others are not. The following critical items deserve special attention and are discussed in detail in the following Statements of Principles:

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

- Confidentiality of Multi-Client Data in the Public Domain
- Disclosure of Multi-Client Data to Third Parties
- Transfer Fees Due Under Geophysical Data License Agreements
- Virtual Access/E-Commerce
- Confidentiality of Licensed Multi-Client Data
- Derivative Products
- Taxes

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Commercial Context

The business model for non-exclusive (or multi-client) **Geophysical Data** takes advantage of economies of scale in our industry by spreading the costs of data acquisition and processing over time and among multiple customers who desire to make use of the data. Under this model the geophysical company initiates and conducts projects of general industry interest at its own financial risk. Restricted non-transferable data user licenses are then sold to individual E&P companies for a fraction of the cost of acquiring and processing the data. Used properly, this model offers significant economic benefits to all stakeholders in the process

Stakeholder	Benefits
E&P Company	<ul style="list-style-type: none"> • Access to high quality data for a fraction of the cost of exclusive proprietary ownership • Allows company to prospect on trend or regional basis • Ability to “ramp up” knowledge base very quickly using available “off the shelf” data • Facilitates higher exploration and development success rates
Geophysical Company	<ul style="list-style-type: none"> • Opportunity to produce and sell more data to more clients, thus producing higher revenues and higher profits than on proprietary contracts • Opportunity to showcase new technology to a broader client base • Greater control in deployment of assets
Host Government	<ul style="list-style-type: none"> • Lower barriers to entry for E&P companies • Provides data with which to make decisions about operational matters • Provides the opportunity to create sub surface maps that can help in the stewardship of the natural resources • More active and competitive licensing rounds • Rapid and efficient development of reserves
E&P Industry	<ul style="list-style-type: none"> • Increased E&P risk dollars brought to overall exploration process by a non-competitor • Lowers the economic hurdles to exploring and producing oil and gas, therefore allowing smaller E&P companies access, and entry to riskier and often more expensive plays • Improves the efficiency of E&P investments, resulting in more such investments

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Obviously, geophysical companies can earn a reasonable return on their investments in **Multi-Client Data** only by selling numerous licenses to the same data.

Contractual Language

The terms of the restricted data user licenses are typically governed by "Master License Agreements" between the geophysical company (the **Data Owner**) and the **Licensee** (the E&P company). The basic premise of these **License Agreements** is that the **Geophysical Data** (as well as certain products derived directly from the data) constitute valuable **Intellectual Property** of the geophysical company. The agreements grant certain usage rights to the **Licensee** that are considered reasonable and customary, while generally prohibiting certain types of disclosure which could damage the future economic potential of the data for its owner. The IAGC Model **Data Licensing Agreement** is an excellent example of the form of such agreements.

Historical Context

From the beginning, the geophysical industry was built on proprietary 2D seismic reflection and refraction surveying – a single **Contractor** working for a single oil company, acquiring and interpreting data, which the oil company then owned exclusively.

During the 1960's and 1970's it was not uncommon for geophysical companies in the course of their primarily proprietary business to acquire occasional 2D "speculative" seismic lines in frontier areas. Over these two decades, the geophysical companies operating onshore US, in the Gulf of Mexico, in the North Sea and the other major marine basins acquired a significant quantity of non-exclusive data. However, this business was purely a secondary endeavor for the industry during this period, and it was proprietary work that paid the bills. More often than not, non-exclusive data was acquired as a hedge strategy when weather conditions were outside proprietary contract specifications, or other factors prevented contract work from taking place.

The seismic exploration methodology of the E&P companies during this period was specific to trends and prospects. Data was acquired in pursuit of a specific play, and not in a systematic fashion designed to understand an entire basin in detail. Such large-scale regional surveying was beyond the economic reach of individual oil companies.

In the early 1980's, a few pioneering geophysical companies envisioned the enormous potential of large scale, high quality non-exclusive 2D surveys in the US Gulf Coast Basin and the North Sea, and developed a business model to create them. This early effort proved successful and was very well received by the industry. It marked the beginning of the modern non-exclusive data business. The integrated geophysical companies, the new specialized non-exclusive data companies, and the data brokers ultimately became participants in the business.

By the middle 1980's, significant quantities of modern non-exclusive 2D data had been acquired and E&P companies were becoming accustomed to its attractive price, good design and high quality. Then a series of difficult downturns rocked the E&P industry and began a painful process of downsizing and technical outsourcing which has continued unabated to the present day. This steadily increasing economic pressure on the industry changed the dynamics of the non-exclusive data business. New geological and **Geophysical Data** has always been the lifeblood of exploration. The lower cost of non-exclusive data became a means of survival for many E&P companies, and the primary driver for cost

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effective exploration across much of the industry. As a result, during the 1980's more and more of the geophysical business shifted from the proprietary business model to the non-exclusive model, particularly in the major offshore basins of the Gulf of Mexico, the North Sea, and offshore West Africa. The rate of data collection and capital investment increased.

As non-exclusive data libraries grew, and the 2D grids were in-filled, the density of data coverage increased to the point that oil companies could not only use them for regional work but also for prospect specific work as well. For the first time, E&P companies could generate prospects across an entire basin and relate them one to another in detail via a regular, consistent grid of high quality data. And in some cases the data quality was exceptionally high. Forward-looking geophysical companies realized quickly that higher data quality meant better sales and a longer shelf life for the product. As a result, acquisition technology and performance specifications on non-exclusive surveys were often superior to those on proprietary surveys. By the end of the 1980's, the majority of all marine 2D data in the world was being collected on a non-exclusive basis, and the business was fully developed.

Throughout the 1980's at the same time the global 2D data libraries were growing, 3D seismic technology and methodology was rapidly evolving. By the latter part of the decade, the supporting technology had advanced sufficiently that the method was reaching full bloom. Major E&P companies were logging an impressive track record of improved drilling success rates using 3D. As with 2D, 3D surveys were acquired initially only under the proprietary business model. However, as technology brought the volume cost of 3D data down, and as the major marine basins began to become saturated with marine 2D data, several geophysical companies began to acquire non-exclusive 3D data. After a few missteps, the business took off, initially in the Gulf of Mexico, where small block size and rapid acreage turnover proved to provide the correct mix of economy of scale and multiplicity of sales.

The shift from the proprietary to non-exclusive business model, and from 2D to 3D continued into the 1990's. Because of the success of non-exclusive 2D data in the prior decade, the industry moved much more rapidly to embrace the non-exclusive business model for 3D data, particularly in the Gulf of Mexico. 3D data, however, was much more expensive than 2D data. Therefore, the capital investments in data being made by the geophysical industry in the 1990's were many times greater than the investments made in the prior decade. The industry-wide rate of investment increased throughout the decade as more and more companies embraced non-exclusive 3D surveying.

By the middle of the 1990's, the non-exclusive business model was dominating 3D data acquisition in the Gulf of Mexico. In the North Sea, use of proprietary and non-exclusive models for 3D data was more equal. Non-exclusive 3D data began to appear in very significant quantities along the US Gulf Coast, onshore and in the transition zone, as well as in west Texas and elsewhere in North America. Land and TZ 3D surveys represented yet another increase in the rate of investment due to the higher unit cost when compared to marine.

Today, the non-exclusive data business plays a preeminent role in the geophysical industry, representing approximately half of annual turnover. The majority of all marine 3D surveys acquired around the world, and a large proportion of the land and transition zone 3D data in North America, are being collected on a non-exclusive basis. Large non-exclusive 2D surveys are still acquired in frontier basins, and will continue to play a very important role in exploration.

Geophysical companies have invested billions of dollars in the creation of non-exclusive **Geophysical Data** throughout the world that have dramatically improved the success rate in finding and developing new oil and gas supplies. As of the end of 2001, these data (and their derivative products) are carried on

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the collective balance sheets of geophysical companies at a net book value of nearly US \$3 billion, representing a huge unrecovered investment. For this reason, the entire E&P industry must recognize the vast **Intellectual Property** value associated with the data.

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