

Talisman energy inc, the decision to enter iraq



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Before entering Iraq, Talisman must do their due diligence in order to maximize profits and minimize risks. Due diligence would require a thorough review of both surface and subsurface risks to successfully extracting oil from Iraq and bringing it to market. It is important that they clearly indicate what needs to be done. Given Talisman's background in Sudan:

1) Being accused of indirectly giving weapons to the Sudanese government by the NGOs which created lots of media attention and bad press. 2)

Talisman used their influence and adopted steps to stop human rights abuse in Sudan, leading them to become the largest independent oil and gas firm on the basis of revenue. 3) NGOs and Sudanese people formed a lawsuit against Talisman insisting they were assisting the violation of human rights in Sudan, which then lead to Talisman having to sell their share of the Sudan case.

Given the current activity in Iraq: 1) Surface risks: – substantial risk that the government may decide to expropriate the land and nationalize oil production, – ongoing concerns having to deal with corrupt military, police and government representatives, – infrastructure concerns and communication abilities and – potential outside influences from NGOs will also have to be addressed. 2) Subsurface risks: -proof of oil but hasn't been found by the other Canadian oil company. In addition, Talisman has factors that make investing in Iraq desirable: -proof of 39 billion barrels of oil, – Kurdistan is said safer and has political stability.

In order to make investing in Iraq profitable and a success, the alternative that will benefit Talisman is to negotiate a balanced agreement with the

Kurdistan government. By doing this, Talisman is able to have control of what is to be done in order for the people of Kurdistan are properly treated, for human rights to be respected etc. This alternative will keep NGOs off of their back, create a good company image, attract investors, generate profits and is the best way to avoid the same problems once lived in Sudan.

Problem statement:

Given the insights derived from their experiences in Sudan, Talisman management must do their due diligence and decide whether or not to invest in Iraq. Furthermore, should they decide to make this investment, it would then become imperative that they develop detailed strategies to maximize production while minimizing risks and costs and thereby operate in the best interests of the company. Analysis: Background: Talisman in Sudan:

* In 1998 Talisman CEO Jim Buckee, aware of substantial oil reserves and believing the risks were manageable, decided to invest in Sudan. * However, soon after, NGOs accused Talisman royalty payments of indirectly funding the Sudanese civil war, which was leading to substantial genocide. * The NGOs brought enormous pressure on Talisman through extensive media attention causing many investors to sell their shares. * In addition, U. S. firms were banned from investing in Sudan because of these concerns. These sanctions presented an even greater opportunity for the remaining non-U. S. oil and gas companies to extract the vast Sudanese reserves at a time when accessible oil was diminishing.

* Concerned that a similar ban in Canada might occur resulting in the cessation of Talisman operations in Sudan, management initiated strategies

aimed at ending the human rights abuses to appease the NGOs. * Talisman was instrumental in the implementation of a code of ethics, a human rights monitoring and investigation system, employee human rights training while working closely with the Sudanese government to halt these activities. * Talisman's strategies worked well and revenues soared but added pressure was then added when the U. S. banned foreign companies involved in Sudan's oil industry from selling in the U. S..

* In 2001 NGOS and Sudanese individuals launched a lawsuit against Talisman, accusing them of supporting the Sudan government in the commission of human rights violations. * Resultant share price dropping due to these efforts ultimately led to Talisman selling its interests in Sudan. Current: in Iraq * As of 2008, the war in Iraq was far from over and there remained considerable, political unrest and the ongoing fighting was considered by many to be a civil war. * With ongoing fighting within Iraq and a relatively new government there is a substantial risk that the government may decide to expropriate the land and nationalize oil production.

* Until the country is more stable and law enforcement is effective, there will be ongoing concerns having to deal with corrupt military, police and government representatives. * Within such an environment it would be difficult to ensure the safety of the company employees. * Infrastructure concerns regarding roadways, energy supply, health and communication abilities will add to the difficulties Talisman must factor into their decision. * Potential outside influences from NGOs will also have to be addressed.

* However, the upside potential for profitability was enormous with geological surveys estimating Kurdistan reserves at 39 billion barrels. * Surface concerns were mitigated by a number of factors. * The removal of Saddam Hussein and a U. S. backed Iraqi government was considered proof of political stability, especially in the Kurdistan area, which was considered safer than the rest of Iraq. * The Kurds were anxious to advance their decades long desire for autonomy and to strengthen the Kurdistan Regional Government (KRG) which would require foreign oil investment and international diplomatic support.

* Although risky, Canadian owned Western Oil Sands entered into production agreements with the KRG but was later purchased by U. S. based Marathon Oil who then resold to another Canadian firm, Western Zagros, due to U. S. political pressures. * Talisman then paid US\$220 million to KRG for permission to join Western Zagros oil exploration and production activities in Kurdistan. * Despite concerns that Bagdad may challenge the KRG's autonomy assertions, the lack of sharing agreements with the central government and pipeline accessibility, investing in the KRG was more optimistic and manageable than investing in southern Iraq.