

# Case study on talisman entry into iraq

[Business](#), [Company](#)



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## **Executive summary**

Headquartered in Calgary, Canada Talisman Energy develops, produces and markets petroleum and natural gas globally. Being one Canada largest independent oil and gas company, its existence commenced in 1992 after British Petroleum (now BP) sold its subsidiary in Canada. Talisman Energy primary regions of operation were mainly in North America, North Sea, and South East Asia. The company achieved a phenomenal growth rate due to several key mergers and acquisitions that are apparent in its large and diverse number of holdings. In 2008, Talisman Energy listed on the Toronto Stock Exchange (TSX), and the New York Stock Exchange (NYSE). The company also has in its employ more than 8, 000 contractors and employees.

The company's phenomenal growth rate however in 2005 began to slow

down perceptibly and the becoming harder to maintain the previous rate of growth. With the Talisman growth profile, leveling off a new corporate strategy was in order. In 2008, the then-CEO, John Manzoni revealed the Talisman's new corporate strategy that comprised of four objectives. The objectives were; lengthened stride for a demonstrated longer term growth, an increased focus on the fewer but more material assets, maintenance of healthy returns while achieving a sustainable growth and finally, improving delivery of the achievable targets.

With the price of oil in 2008 peaking at 130 US Dollars per barrel as opposed to the 1990's 20 US Dollars per barrel. In addition, the demand for oil in 2008 was 87 million barrels daily. Such factors made oil production companies more amenable to greater risks and costs in exploring and producing oil. The Talisman Energy after conduction its legal and political due diligences decided to enter Iraq, more specifically, Kurdistan. The security risks posed by operating in Iraq, a country that has been at a "civil" war since the American Invasion of 2003 is numerous. Nonetheless, the greatest concern lies in the worry that the Kurdistan Regional Government will use the revenues obtained from the Oil mining by Talisman to violate human rights and oppress its people. Talisman experience in Sudan, where the Sudanese government used the resources obtained from Oil producers including Talisman to run a genocide serves as a guiding lesson for Talisman. The reputational, legal and political ramifications of Talisman Tenure in Sudan still reverberate to the present.

## **Problem Statement**

Is the decision by Talisman Energy to move into Iraq a repeat of past mistakes, specifically the Sudan mistake? Various factors governing the Iraq decision are similar to the decisions guiding the Sudan decision. In summary, did Talisman Learn anything from Sudan and are they applying it in Iraq considering the costs and benefits of their entrance.

## **Analysis**

### Talisman's Tenure in Sudan

In 1998, Talisman acquired Arakis Energy Corporation that similarly was an independent Canadian oil company. The acquisition gave Talisman a 25 percent interest in Greater Nile Petroleum Operating Company (GNPOC), a company that was set up to operate in Sudan. Despite the high risks of the entry into Sudan, the potential benefits were very high. The risks involved the fact that Sudan had been in a state of almost constant brutal civil war since 1950's. However, United Nations recognized the legitimacy of the Sudanese government reducing the potential political risks. Initially, the investment paid off when the GNPOC struck gold in 1999 and extracted the first barrel.

Nonetheless, due to the belief that the Sudanese government was using oil revenues to purchase weapons, numerous international Non-Governmental Organizations (NGOs) blamed Talisman Energy for complicity in the genocide. In addition, the harshness and the brutality of the genocide drew media attention. The brutality coupled with the drought that killed an estimated 2 million civilians along with the fighters the focus of western media in the area increased. The NGOs set out in a campaign to cut off

Sudanese government spending. Inevitably, Talisman Energy got in their crosshairs as they launched a large divestment campaign targeting the Talisman's institutional investors. In addition, they also lobbied both the United States and Canadian governments to exert pressure on Talisman to exit Sudan.

The Canadian government began a high-profile investigation into Talismans alleged role in the Sudan civil war. The report by the government clearly stated that while Talisman had no part oil was exacerbating the Sudanese conflict. Talismans involvement in Sudan became a household topic due to the media attention. Shareholders became increasingly concerned about the price of their share and demanded transparency in the company's activities in Sudan. In order to influence the Sudanese government, Talisman management engaged in a dialog with the government regarding practices such as civilian bombings, child soldiers, and the human rights violations. The company also incorporated the International Code of Ethics for Canadian Businesses and formalized its corporate social responsibility operations and practices.

However, the company's corporate earnings rose in this period. The projections by the company indicated that the company expected that the year's income would be four times the income generated in the previous year. On the revenue obtained from Sudan, the company had managed to become the largest Canadian independent oil and gas company.

In 2001, the pressure only increase on Talisman to stop funding the Sudanese government. With United States House of Representatives moving a motion to stop foreign oil companies from selling securities in US. On

November, same year the Presbyterian Church in conjunction with several Sudanese individuals sued Talisman in a US Federal court for conspiring, and aiding the Sudanese government in its human rights violations. The share price dropped despite an increase in revenues; major investors began threatening to pull out if Talisman remained in Sudan. Eventually, the Talisman Energy caved in and sold its Sudanese assets in 2002.

### **Lessons Learnt from Sudan**

Talisman ought to have realized that the sentiment of both the Sudanese government that affected its operations in the country would have to equal the opinion in their home country. Talisman was more or less a victim of its circumstances. To operate in Sudan Talisman had to pay revenues to the Sudanese government, but had no control over how the Sudanese government chose to use its money. As such, the NGOs campaign spotted the connection and simply attacked Talisman. Considering the Clinton administration's sections had stopped American oil corporations from operating in Sudan, Talisman operations seemed villainous with it being a sole western company paying revenue to a genocidal government.

The political risk of operating in a region that is disfavored by the public opinion is also relatively high. Despite the massive Corporate Social Responsibility and publicity attempts, Talisman was unable to present itself a decisive influence in Sudan. Furthermore, even the increased revenues could not stop Talismans share price from dropping. In such a situation for Talisman, divesting of its Sudanese assets was the only viable option.

## **Talisman's Entry into Iraq**

A war has been raging in Iraq since the American invasion in 2003 on the suspicion that Saddam Hussein was harboring al-Qaida terrorist and producing weapons of mass destruction. Regarded as a civil war by some groups the war has killed and estimated 150, 000 to 1, 000, 000 civilians with 4, 000 American soldiers dead.

The Kurdistan region has several unique features that draw Talisman to produce oil in the area. The fact that the region has an approximated 39 billion barrels of oil reserves; this was established by US Geological survey. In addition, Kurdistan's has a unique history that renders are relatively safer than the rest of Iraq. Having sought autonomy from Iraq for a long time, the American-backed Iraq government granted the Kurdistan Regional Government (KRG) a degree of freedom in 2005. KRG sought foreign oil investments in a bid for economic development.

However, numerous challenges lie in the path of Talismans entry into Kurdistan. US government supports a united Iraq and Talisman entry in Kurdistan might seem like support for Kurdistan autonomy and therefore face American opposition. Baghdad's opposition to the authority of the KRG's authority to grant licenses could also be devastating to Talisman. The primary challenge, however arises from the fact that the region is war-torn, and KRG could use the 220 million dollars to run a war.

## **Alternatives**

There are various that Talisman could employ to prevent a repeat of the Sudanese situation. The most viable and efficient option would for Talisman to have a say in the spending of the money. The main problem in Sudan was

the fact that Talisman had no direct influence on how the revenue that the Sudanese government was used. Consequently, Talisman could only dialog with the Sudanese government on the revenue allocations. Furthermore, in Sudan Talisman did not have a means of monitoring the government spending and this resulted in the resources being used to run the genocide. Therefore, Talisman should ensure that the deal that they have with the KRG for the 220 million dollars includes a budget on the allocation of the money. The deal that they have with KRG should be concise on terms such as using the money for weapons.

The advantages of such an approach would be that Talisman would avoid a repeat of Sudan in Kurdistan. The government could spend the money on improving its infrastructure or even social welfare. The constructive use of revenue obtained from Talisman would be a significant public opinion boost and enhance the reputation of Talisman internationally.

On the other hand, KRG might be opposed to having its economic plans being dictated by a foreign oil company. In such a situation, KRG could just grant the license to a different company that has no such impositions. With the potential of the Kurdish oilfields, replacements for Talisman would be easy to find. Talisman would end up losing the opportunity to make an entry into Iraq or to enjoy the projected high returns. In addition, KRG could just as easily go back on their word regarding how the spending of the money. Should that happen, Talisman will have a repeat of Sudan where their money funds another war.

Regarding the autonomy of Kurdistan and their independence from Baghdad, Talisman could negotiate with both governments. The goal of such a



negotiation would be to avoid a situation where Bagdad contests the rights of Kurdistan to give licenses to oil companies. The advantages of such a decision are that it would ensure that whichever government claimed Talisman would be secure in their operations. The lack of federal law regulating the revenue sharing by both governments is more easily drafted and implemented if both sides stood to benefit as opposed to the KRG only.

## **Recommendations**

Talisman should ensure that the money paid to the Kurdistan government is not used for weapons programs or to fund the war. The disastrous reputation of Talisman tenure in Sudan must not happen again. There are various ways to ensure that the government does not use the money for weapons including the first recommendation. Here Talisman would engage the KRG on the uses of the money. However as mentioned earlier the KRG could simply give the promises only to break them as soon as they have the license money. To prevent such a situation from emerging Talisman could deliver the payments in installments. Talisman could then monitor the spending and the usage. In Iraq, Talisman has a stronger say considering that instead of having a 25 percent interest it has a controlling interest. In conclusion, the benefits of the entry of Talisman entry into Iraq far outweigh the risks that the company faces. However, the company must prevent a repeat of Sudan.

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