

Essay summary of talisman energy



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Talisman Energy Inc. (Talisman) is an independent Canadian oil and gas producer. Talisman is a company that has been through a great deal of criticism due to their negative experience in Sudan in previous years. They were accused of numerous things such as fueling the civil war, believing the Sudanese Government was using oil revenues to purchase weaponry, and of being complicit in human rights abuses because of fees and royalties paid to the government for the rights to explore oil and gas.

Now, Talisman is faced with the decision of whether or not they should enter into Kurdistan, knowing that the same thing can happen there as it did in Sudan. The KRG is asking for \$220 million in exchange for allowing Talisman to search for oil reserves. Not knowing what the KRG will use the money for, whether it's to improve economic development or to purchase weaponry creates a dilemma for Talisman. The board of directors had first-hand experience of the damage to Talisman's reputation. With proper due diligence and continuous re-evaluation of the situation in Kurdistan, Talisman should now find it easier to discover political risk and solve problems before they arise.

Problem Statement

Talisman Energy Inc. has encountered problems in the past when entering into politically unstable markets in other countries. Now they are faced with the decision whether to enter the oil-rich Kurdistan region of Iraq, knowing there are great risks associated with it. If they decide to enter Kurdistan, can they do it without facing the same problems as they did in Sudan?

Analysis

Talisman's interest in pursuing oil exploration in the Kurdistan region of Iraq has been shaped by many factors. First being that Kurdistan is estimated to have 39 million barrels of oil reserves. Second, Talisman was optimistic about the opportunity for foreign oil companies to tap into Iraqi oil now that Saddam Hussein had been defeated. Finally, the Kurdistan area was viewed as significantly safer than the rest of Iraq. Talisman Energy Inc. is a company who has experience doing business in countries with high political risk. Political risk can be caused by conflict and violence, terrorism and kidnapping, property seizure, policy changes, and local content requirements (Wild & Wild, International Business, 2012). Corruption sometimes plays a role in international business. See table 1 for the Corruption perception index. The higher the CPI score the less corruptive the country is.

Table 1 Corruption Perception Index Country CPI Score

Finland	9.0	to	10.0
Canada	8.0	to	8.9
United States of America	7.0	to	7.9
Spain	6.0	to	6.9
Hungary	5.0	to	5.9
Greece	4.0	to	4.9
Mexico	3.0	to	3.9
Russia	2.0	to	2.9
Iraq	1.0	to	1.9

Talisman is now faced with the decision of whether or not they should enter into Kurdistan given the uncertainty in such an unstable region. Have they

done the proper due diligence to proceed into Iraq. Iraq is a region with high political risk see Exhibit 1 (Wild & Wild, International Business, 2012).

Exhibit 1 Political risk around the World

In retrospect, should Talisman have gone into Sudan?

Talisman made a good decision by entering Sudan. They were aware of the risks but the rewards were potentially high. It was for this reason they took the chance. They were faced with many challenges such as being blamed for influencing the Civil War. Overcoming these challenges only made the company stronger and more knowledgeable for similar future situations.

What are the learnings from the Sudan experience?

Talisman learned a great deal from the Sudan experience. They established a dedicated Corporate Responsibility Group (CR) in response to the events in Sudan. The CR group have developed Talisman's CR policies, procedures and reporting protocols. Over the years, they have included government relations and responsibility for assessing the risks involved in new projects, especially when entering countries that have high political risk. The company has also added the International Code of Ethics for Canadian Business to its existing corporate code of ethics (Talisman Energy Inc.: The Decision to Enter Iraq, 2009). For more information on how Talisman manages their corporate responsibility see Exhibit 2.

Exhibit 2 Talisman managing Corporate Responsibility Their commitment to corporate responsibility is founded in their company values. Their people put these values into action daily. Their dedication to making Talisman a great corporate citizen is built into the policies, systems, procedures and practices

they have put in place to keep them improving. Their values include: Safety: Their goal is to create working conditions that cause no harm to people. Passion: They inspire others by the passion they demonstrate in their work. Results: They have a bias for results and take initiative to get things done efficiently, creating value for their shareholders. Respect: They take time to consider and appreciate other people's points of view and treat the environment with respect.

Excellence: They strive for excellence in what they do and how they do it. Teamwork: by working effectively together, they can deliver results far beyond their individual capabilities. Honest communication: They show courage to speak honestly and support others to do the same. How much money can Talisman make by entering Iraq?

If the U. S geological survey is correct in estimating Kurdistan to have 39 billion barrels of oil reserves, then Talisman can make an enormous amount of money by entering Kurdistan. The world demand for oil in 2008 is forecast at 87 million barrels per day and the price of oil was US\$130 per barrel (Talisman Energy Inc.: The Decision to Enter Iraq, 2009). The profit would be in the trillions. These large figures could cloud one's judgement when making such an important decision as this. The resources are there to generate huge profits but the circumstances they have to go through to do so will have to be examined. What are the costs and benefits for Talisman to enter Iraq?

Costs

A 220 million dollar payment has to be paid to the Kurdistan Regional Government. Talisman's entry might be viewed as support for the Kurdistan government as it was in Sudan and as a result there could be opposition

form the U. S government, which supports the unity of Iraq and the Iraqi central government. There has yet to be an agreement on revenue sharing (Talisman Energy Inc.: The Decision to Enter Iraq, 2009). This could cause problems between the central government and the Kurdistan Regional government. A decision to enter Iraq could ruin the reputation of the company if the same thing were to happen there as in Sudan. The Iraqi central government controls Iraq's export pipeline system. Without the ability to export the oil, Talismans oil revenue would be significantly curtailed.

Benefits

- Have access to large amounts of oil reserves.
- Financial growth resulting in trillions of dollars in profit.
- An opportunity to invest in the region of Kurdistan.
- An opportunity to increase the company's overall market share.
- An increased level of profit as a result of cheaper labour than other business ventures.

Discussion of Alternatives

There are some alternatives that may help solve Talisman's problems. Presented here are some advantages and disadvantages of each as well as how each would affect the company as a whole and the country in which it is conducting business. One alternative would be to become more involved in the country where the business is taking place. A positive image needs to be put forth. Talisman needs to show others that it wants to make a difference in the Kurdistan region. With the \$220 million that is to be paid to the Kurdistan Regional Government (KRG), it is possible that Talisman could

approach the KRG and make some kind of a deal regarding the use of the money. Hopefully this will ensure that it is used to build affordable housing, hospitals, schools, roads, and improve drinking water.

This has all been destroyed or damaged by past conflict within the country. The advantage of this action results in proving to others that the money is being spent to improve economic development in the region of Kurdistan and not to create independence from Iraq. A disadvantage of this would be the actual cost to carry out such an amount of work. Ultimately, it would improve their public image and presence in Kurdistan and hopefully prevent any controversy while being there. Another alternative would be to continually evaluate their position while in Kurdistan. This involves evaluating risk to prevent unexpected risks from occurring or exposure to them. By doing this, Talisman would always be on top of the situation at hand and it will allow them to become more proactive in their presence there. It will also help them to decide to stay or leave at any particular time. An advantage of this would be awareness of the local conditions and political/economic environment.

They would re-evaluate the risks on a regular basis. This should prevent them from making the same mistakes as they did in Sudan. A disadvantage of this again would be that it is more costly. In addition, Talisman is risking the chances of another company taking the opportunity to enter the region and gain control of the oil reserves. The end result would be that Talisman would be receiving constant updates on the situation in Kurdistan.

Recommendation

Talisman Energy Inc. is a company that has had their fair share of problems when dealing with areas involving high political risk, such as Sudan. During their time there, they learned a great deal about risk and what to look for to reduce it to an acceptable level for investment purposes. The best way to reduce risk is to continually evaluate the region in which they are conducting business. With all the experience that Talisman has gained in Sudan they should now have a higher level of knowledge and comfort in doing business in Kurdistan. Talisman should now find it easier to discover political risks in new investment ventures. By completing the proper due diligence and exploration of political, legal, social and human rights issues, they should excel in doing business in the Kurdistan region.

One must always remember when conducting business in an area with high political risks come high cost. If Talisman decides to enter Kurdistan it has to make sure that the \$220 million dollar payment to the Kurdistan Regional Government is transparent and that it meets the standards of the Extractive Industries Transparency Initiative (Talisman Energy Inc.: The Decision to Enter Iraq, 2009). A deal should try and be made with the KRG to ensure that the money be spent on economic development and not on weapons. This would show the people of the region and the world that Talisman wants to help the people of Kurdistan improve their country, while at the same time establish a viable relationship with the region in order to successfully operate its business in the oil industry.