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SUBJECT: OMV TO CONTINUE OIL EXPLORATION IN NORTHERN IRAQ
DESPITE IRAQI EMBARGO

Summary

¶1. (C) Austria's OMV will not discontinue its cooperation with the Kurdish Regional Government (KRG) despite the Government of Iraq's recent decision to impose an oil embargo on OMV. OMV maintains its decision to sign production sharing agreements with the KRG is in line with the Iraqi Constitution. An OMV contact speculated that Iraqi Oil Minister Hussain Al-Shahristani, who made the decision to impose the embargo, is increasingly isolated within the Iraqi Government and that he could soon be replaced. OMV will proceed with preparations to explore two oil blocks near Erbil. In 2008, OMV had planned to import 2.6% of Austria's total oil imports from Iraq. OMV is confident that it can cover this shortfall by increasing imports from one of the 15 countries from which Austria purchases oil. End Summary.

OMV: Iraqi Oil Minister Behind Cut-off

¶2. (C) Peter Seifert, OMV's Exploration and Production Manager for the Middle East, recently confirmed to post that Iraqi Oil Minister Hussain Al-Shahristani took the decision to halt exports of 10,000 barrels of oil per day to Austria. The embargo was to protest OMV's two production sharing agreements with the Kurdish Regional Government (KRG) (reftel). Seifert maintained that the Iraqi Government did not fully support Al-Shahristani's decision. Seifert claimed that Al-Shahristani was isolated within the government and

that he could soon be replaced.

¶3. (C) From the approximately 15 foreign energy firms that have concluded contracts with the KRG, OMV and South Korea's SK Energy were the only two companies that also imported oil, according to Seifert. The remaining companies reportedly specialized in exploration and production, and would not have been affected by an embargo. Therefore, the GoI could only halt oil sales to OMV and SK Energy.

OMV Believes Kurdish Deal is Legally Sound

¶4. (C) Seifert reiterated OMV's view (reftel) that the contracts with the KRG were entirely in line with the Iraqi Federal Constitution. OMV's lawyers have thoroughly analyzed the legal situation, Seifert claimed. Seifert said that the KRG would soon present an expert opinion "from a group of leading international lawyers," supporting OMV's position.

¶5. (C) OMV, according to Seifert, supported a federal Iraq and recognized the political dangers of a fragmented country. The stipulations in the contract could be easily integrated at the federal level, whenever the long awaited Hydrocarbon Law comes into effect. In the meantime, OMV will carry on with preparations to begin exploration of the Mala Omar and Shorish blocks in 2008.

OMV Not Concerned With Oil Embargo

¶6. (U) OMV Spokesman Thomas Huemer downplayed the effect of the oil embargo. In 2008, OMV's imports from Iraq were scheduled to be 2.6% of Austria's total oil imports (Note: OMV is Austria's sole oil importer. End Note). This would represent an increase from 2006 (latest figures available), when only 0.7% of total oil imports came from Iraq. Huemer added that OMV would not experience difficulties substituting Iraqi imports with oil from one of the 15 countries from which OMV purchases oil.

