Oil exports underpin Russia

Relations between Russia and OPEC are conducted cautiously, with the Middle East Gulf state- dominated group anxious about Russia's export capability and its increasingly close relationship with the US. OPEC negotiators have lobbied hard to keep a lid on Russian exports in a bid to keep oil prices in line with the group's expectations.

Crude oil exports are a key source of income for Russia, as revenues from exports provide at least 25% of the Russian government's income. Charles Meynell, Russia analyst and editor of Russia Briefing, says: "Many in Europe and the US are worried about Moscow's increasing dependence upon oil revenues. Tax collection is poor and too much capital is still leaving the country." It is estimated that every $1-per-barrel increase in the price of Russia's Urals Blend benchmark brings in almost $1bn in extra earnings.

In March 2002, against the advice of domestic oil companies, the Russian government said it would continue to reduce its oil exports by 150,000 bpd in line with other non-OPEC producers including Mexico, Norway and Angola.

Russia's new export channels, such as the Baltic Pipeline System, provided a powerful disincentive to Russian oil producers to reduce their output.

But as world prices climbed the major oil companies such as LUKoil, Sibneft and Yukos kept pumping and the Russia abandoned its official policy in the following July, just months before the US/Russian Houston energy summit in October 2002.