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RUSSIA LOOKS AT INCENTIVES TO BOOST OUTPUT

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MOSCOW

President Vladimir Putin of Russia indicated yesterday that the Kremlin would be prepared to give oil companies tax breaks to explore new fields, a day after they promised to freeze domestic fuel prices until the end of the year.

In comments broadcast on state-owned television, Viktor Khristenko, minister for industry and energy, told Mr Putin the government should lower taxation in the oil sector and, in particular, unpeg the mineral extraction tax from global prices to encourage investment in exploration and development of difficult fields.

Mr Putin said oil companies should be encouraged to invest money in exploration but must not abuse any potential tax breaks. Mr Khristenko said the government was considering introducing tax breaks for oil companies during the development of new fields.

Mr Khristenko said Russian companies were producing oil twice as fast as they could replace their reserves. He warned that the growth in Russian oil output next year could be even lower than the 2 per cent expected this year.

Russia's slower output growth was one of the factors behind rallying global oil prices. But analysts said the picture painted by Mr Khristenko was too gloomy.

They argued that the main reason for stalling oil production was the dismantling of Yukos, the oil company once controlled by Mikhail Khodorkovsky, the jailed tycoon.

Aton, a Moscow brokerage, estimates that excluding Yukos, overall Russian oil production increased 6.3 per cent in the first seven months of this year led by strong growth in other large companies.

Lukoil, Russia's largest company, yesterday reported production growth in the first half of this year of 4.5 per cent compared with the same period last year. The company's net profit also rose 52 per cent to Dollars 2.6bn (Euros 2.1bn, Pounds 1.4bn), mainly as a result of high oil prices.

"It looks like Khristenko is lobbying (for) the interests of the oil companies. If you look at their balance sheets, they are not short of cash," said Steven O'Sullivan, head of research at UFG, a Moscow-based investment bank.