Oil May Top $250, Says Gazprom CEO

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A shortage of oil and gas investment means the sector will fail to meet demand when the global economy begins to recover, Gazprom Chief Executive Alexei Miller said on Wednesday.

There are no guarantees that further increases in oil demand will be supported by a sufficient growth in investments, the head of the Russian natural gas giant said.

Nobody has solved the issue of the "2012 supply gap" which may emerge later than thought but which will be deeper.

"It means prices may even jump over the $250 hurdle we have forecast a year ago," Miller said in a written text of a speech at a conference in Italy on the financial crisis and energy.

"Expectations remain that trimmed capital expenditure programmes of international oil majors caused by the high volatility of the crude oil market will reduce production capacities and oil supply on the market in three to five years," Miller said.

Investments into geological exploration and production in the global oil and gas sector will fall by more than 20 percent in 2009, he said.

"If capital expenditure is not restored the forecast of '$150 per barrel of oil in two, three years' voiced by Saudi Arabian representatives ... will come true," Miller said.

The Gazprom CEO said there were grounds for believing the oil price would rise to $85 per barrel by the end of 2009 while the market had pinpointed $100 per barrel as benchmark price in 2010.

With increasingly higher development costs, investment in startup oilfields have to reach some $400 billion per year, he said.

"As long as the market is excessively volatile it is absolutely clear that existing reserves will not be developed rapidly enough to satisfy the expected demand," he said.

Miller said the pricing system on the oil market needed to be radically revised, especially since the oil price reflected financial transactions on the equity market.

Miller urged the use of long-term contracts for the oil market to support the creation of a unified settlement and payment system.

"We should consider the reform of the existing system of linking oil prices to only one currency" in favour of a multi-currency settlement system, he said.

A new Oil Exchange of producing countries trading physical volumes needed to be created in light of the monopoly position of the major NYMEX trade floor.