Crude price may double, warns Gazprom chief

- **Clancy Yeates**
- June 12, 2008
-

THE world's largest energy company yesterday warned that oil prices would almost double, fanning fears that higher oil prices may inflame inflation.

The chief executive of Russia's Gazprom, Alexei Miller, said oil would hit US$250 a barrel "in the foreseeable future", compared to yesterday's price around $US132, dwarfing recent analyst predictions of $US150.

The news came as Saudi Arabia said disgruntled leaders from oil importing nations would have a chance to air their grievances at a meeting with oil producers later this month, and local economists warned of oil-fuelled inflation growth.

OPEC announced the special oil summit would be held in the Saudi port city of Jeddah on June 22.

Oil consuming nations have argued that oil producers are limiting supply to push up prices, a complaint dismissed by producers, who have blamed speculators for the surge.

Mr Miller said speculators, who will be represented at the meeting by major investment banks, would play a role in the predicted leap in prices, but were not a "determining influence".

Domestically, economists said that although high petrol prices were already eroding household budgets, the major danger they posed to Australia was through forcing up inflation.

The chief economist at AMP Capital Investors, Shane Oliver, said it was "quite conceivable" that the latest oil price jump might push the headline inflation rate to 5 per cent from its current level of 4.2 per cent.

A senior economist at Westpac, Matthew Hassan, said only about a third of household spending on petrol occurred at the pump - the rest was factored into goods and services that depended on oil, such as transport or groceries. "Fuel price rises are much more likely to be an inflation problem than a budget constraint one," Mr Hassan said.

The prospect of oil-fuelled inflation further complicates the Reserve Bank's task, as it attempts to tame inflation from its uncomfortably high level of 4.2 per cent.

A visiting US economist from Carnegie Mellon University, Marvin Goodfriend, said central banks should use caution when attempting to address inflation caused by the soaring price of food and other commodities.

Prices in these sectors were difficult to influence, and higher interest rates imposed a toll on other sectors of the economy unnecessarily, said Professor Goodfriend, a guest of the United States Studies Centre at the University of Sydney.

Fears of higher inflation have grown in recent days, and money markets believe there is almost a 60 per cent chance the Reserve Bank will raise interest rates in August, up from a 35 per cent chance last week.

Against concerns for inflation, however, the Reserve Bank will assess the slowing impact that higher oil costs have on world growth, which could relieve inflationary pressure by slowing demand for Australian exports.

with wire services