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Oil Price to Stay Flat in Real Terms Through 2030, Russia Forecasts

By The Moscow Times

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Russia forecast Thursday that oil prices would remain flat in real terms through to 2030, taking a more bullish view than many independent forecasters who expect an exploration revolution to deliver ample supply and depress prices.

After taking inflation into account, the price of crude oil and other commodities will remain roughly unchanged over the period, the government said in its revised long-term forecast for Russia's $2 trillion economy.

Expressed in 2010 dollars, making prices comparable over time, the average cost of a barrel of oil would be in a range of $90 to $110.

In nominal terms — or the money of the day — crude is seen rising to $160 to $170 per barrel by 2030, said the forecast, which cited "worsening production conditions and increased demand from developing countries."

The price forecast by Russia, the world's leading oil producer, is more bullish than expectations of a decline to $80 per barrel in real terms by 2020, as seen in a Reuters poll of analysts last week.

The government forecast slashed the expected rate of economic growth to 2.5 percent from 4 percent, indicating that oil prices need not only to be high, but to keep rising, for Russia's resource-dependent economy to prosper.

The growth downgrade comes even though Russia slightly increased its forecast of average oil production to 520 million to 525 million tons per year, or 10.44 million to 10.54 million barrels per day, over the period.

The upward revision was based on the assumption that Russia would produce more hard-to-recover "tight oil" than previously expected.

Russia has, however, only just introduced tax breaks that would make it economic to use the new fracking technology in which jets of water are blasted into non-porous rocks such as shale to recover previously inaccessible reserves.

Critics say the Russian oil industry, dominated by state oil major Rosneft since its $55 billion takeover of TNK-BP this year, remains in denial over the strategic threat posed by the shale energy revolution.

CEO Igor Sechin, a close associate of President Vladimir Putin, has aggressively chased export sales to China despite concerns that Rosneft may not have the capacity to deliver the increased volumes.

Although Rosneft has also teamed up with U.S. Exxon Mobil to develop the vast Bazhenov tight oil formation in Siberia, production will come too late to prevent the U.S. from overtaking Russia to become the world's largest oil-producing nation in the next few years, analysts say.

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