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## News Release

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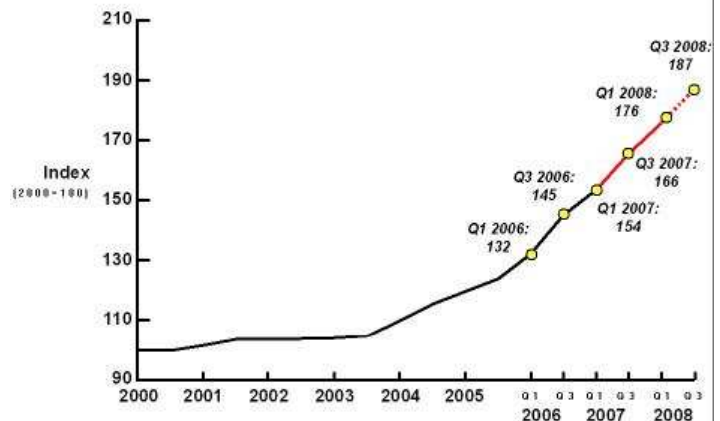
### **IHS CERA Downstream Capital Costs Index: Refinery and Petrochemical Construction Costs Continue Upward Climb** *Index posts 6% increase in the past six months, 87% rise since 2000*

**CAMBRIDGE, Mass.** (November 20, 2008) – Despite an economic slowdown in the United States and elsewhere around the world, the costs of designing and constructing downstream refining and petrochemical projects continue their upward climb, according to the IHS CERA Downstream Capital Costs Index (DCCI).

The IHS CERA DCCI rose from 176 to 187 points over the past six months – an increase of six percent. The values are indexed to the year 2000, and the index has risen 87 percent since then, meaning that a project that cost \$100 in 2000 would cost \$187 today.

“At the end of the third quarter, the impact of the slowing economy had just begun to affect the cost of construction materials,” said Daniel Yergin, CERA chairman and IHS executive vice president. “General construction activity, even in the U.S., remained relatively strong and only slightly lower than total spending in the previous year, because strong nonresidential spending continued to offset the losses from residential construction. At the same time, demand for energy-related projects remained at high levels, continuing to constrain supply. However, the effects of the

IHS/CERA Downstream Capital Costs Index



Source: CERA

recession and the credit freeze will likely change the picture considerably in the months ahead.”

“While some markets had significant increases, engineering and project management and labor both showed only small increases in the past six months, with any local inflation being offset by the recent strengthening of the U.S. dollar,” said Jackie Forrest, lead researcher for CERA's Capital Costs Analysis Forum for Downstream.

The IHS CERA DCCI is a proprietary measure of project cost inflation similar in concept to the Consumer Price Index (CPI). It provides a benchmark for comparing costs around the world and draws upon proprietary IHS and CERA databases and analytical tools.

Cost increases have been sustained by steep increases in the cost for carbon steel material impacting the cost of manufactured goods made from carbon steel (structural beams, piping and equipment), ongoing demand in the energy sectors and high energy prices – West Texas Intermediate (WIT) oil pricing averaging more than \$120 per barrel during the second and third quarters of 2008.

Of the 18 localities tracked by the IHS CERA DCCI, China and the U.S. Gulf Coast saw the highest levels of cost change in the past 6 months, registering 8.5 percent and 7.9 percent increases, respectively.

“Although the current credit crisis did little to slow construction costs this period, we expect growing credit issues and slower global growth to lead to lower costs for constructing downstream projects in the next period,” Forrest said. “Credit issues will almost certainly have a growing and noticeable impact on future general construction activity in the United States and other regions.”

“It is important to note, however, that governments around the world are working hard to restore liquidity, and it still remains to be seen how far these measures will go in bridging the gap and providing the funding needed for the long list of general construction projects currently planned globally,” Forrest added.

Construction levels for planned downstream projects are almost three times busier than the recent past, and although CERA does not expect all of these projects to be constructed, the level of construction activity for downstream projects is projected to remain relatively strong until at least 2010 as existing, committed projects are under construction. Past 2010, downstream project activity levels are expected to slow, with lower refining margins and lower expectations for economic growth working to slow plans for yet-to-be-started downstream projects.

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### **About the IHS CERA Downstream Capital Costs Index (DCCI)**

The IHS CERA DCCI tracks the costs of equipment, facilities, materials, and personnel (both skilled and unskilled) used in the construction of a geographically diversified portfolio of more than thirty refining and petrochemical construction projects. It is similar to the consumer price index (CPI) in that it provides a clear, transparent benchmark tool for tracking and forecasting a complex and dynamic environment. The DCCI can be tracked on the IHS Index Web Site: [www.ihsindexes.com](http://www.ihsindexes.com). The DCCI is a work product of CERA's Capital Costs Analysis Forum for Downstream (CCAF-D). For information on the Capital Costs Analysis Forum for Downstream, contact Jackie Forrest at [jforrest@cera.com](mailto:jforrest@cera.com) or Richard Ward at [rward@cera.com](mailto:rward@cera.com).

### **About CERA ([www.cera.com](http://www.cera.com))**

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