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Navigating Turbulence: Mega-Project Recalibration, Geopolitical Risk and Construction Disputes in Saudi Arabia

Saudi Arabia's construction sector is undergoing a period of profound transformation, fuelled by two major developments.

The first is the recalibration of its mega-project portfolio – a strategic re-scoping and, in some cases, cancellation of flagship Vision 2030 developments. This recalibration has generated legal consequences for contractors, employers and lenders.

The second is the eruption of the Iran conflict in February 2026 and the consequent disruption to shipping through the Strait of Hormuz. The conflict has overlaid supply chain paralysis, cost escalation, and workforce displacement onto an industry that was already adjusting to tighter fiscal conditions.

These developments are not merely concurrent – they are compounding. The commercial and legal difficulties arising from project recalibration – termination disputes, bond exposure, and cost claims – have been materially deepened by the geopolitical shock. The result is a pronounced and expected surge in construction claims and formal disputes.

This article examines:

- firstly, the legal issues arising from the recalibration of mega-projects;
- secondly, the relevant contractual and statutory tools available to address unexpected disruptions; and
- thirdly, the categories of claims that project participants should anticipate, together with practical guidance for navigating the current environment.

The analysis focuses on Saudi Arabia's Civil Transactions Law or CTL (Royal Decree No M/191 of 2023) and the FIDIC standard forms of contract, which remain the predominant contractual framework for major projects in the Kingdom (albeit, often with heavy amendments).

The recalibration of mega-projects and related legal issues

The ambition that characterised the early years of Vision 2030 has given way to a more measured approach. In its 2024 annual report, Saudi Arabia's Public Investment Fund (PIF) reported a USD8 billion write-down on its giga-project portfolio. A number of high-profile projects have been materially re-scoped or suspended.

For instance, The Line – the 170-kilometre linear city in region-in-the-making NEOM – was suspended in September 2025, and the project is now being redesigned, with the Kingdom pivoting towards data centres and AI infrastructure. The Trojena mountain resort – originally the centrepiece of the Kingdom's 2029 Asia Winter Games bid – has seen approximately USD6 billion in contracts terminated and the Games' host city has shifted from NEOM to Almaty, Kazakhstan.

Finance Minister Mohammed al-Jadaan confirmed in December 2025 that the Kingdom is willing to defer or cancel projects if they no longer make economic sense, while Economy Minister Faisal al-Ibrahim described 2026 as the start of Vision 2030's "third phase", shifting "from launching economic reforms to maximising their impact". The PIF's 2026–2030 strategy now emphasises investment efficiency and domestic value creation, with capital redirected towards commercially viable sectors such as logistics, mining and digital infrastructure.

This recalibration has significant legal consequences for participants in the affected projects, with three issues being particularly acute:

Termination for employer's convenience

Where projects are cancelled outright, employers typically rely on contractual rights to terminate for convenience. Termination for convenience typically entitles the contractor to:

- the value of the work carried out;
- the cost of the plant and materials ordered;
- any other cost or liability reasonably incurred in expectation of completing the works; and
- the cost of removal of equipment and repatriation of staff.

Notably, however, termination-for-convenience provisions do not always include an entitlement to loss of profit – an omission that is particularly significant in the context of large-scale project cancellations. By contrast, under the CTL's general compensation principles, recovery of loss of profits is possible as a component of foreseeable contractual damage (Article 180, read with Articles 136–137), although this rule is not mandatory and may be derogated from by agreement.

Re-scoping and variations

Where projects are not cancelled but materially reduced in scope, the legal mechanism is typically a variation order (eg, see Clause 13 of the FIDIC 2017 Red Book).

However, significant reductions in scope can engage questions of whether the variation fundamentally alters the nature of the works. If so, the reductions may constitute a constructive termination, entitling the contractor to the remedies that would follow from an employer-initiated termination. Many contracts in Saudi Arabia impose a cap on the aggregate value of variations that may be ordered specifically to avoid such a scenario.

In any case, the extent and consequences of scope reductions take on considerable practical importance for contractors who may feel locked in to contracts that are fundamentally different to what they agreed.

Performance bonds and guarantees

Many contractors on mega-projects have provided substantial advance payment guarantees and performance bonds – often amounting to 10% or more of the contract price. Where projects are suspended or in limbo, the timing and conditions for release of these securities become contentious.

An employer's right to call bonds "on demand" may not always be what it seems. Overlaying any such right are the mandatory provisions of Saudi law including:

- the obligation to exercise rights in a manner consistent with good faith under Article 95 of the CTL; and
- the obligation not to exercise rights unlawfully or abusively under Article 29 of the CTL.

These mandatory provisions of Saudi law may restrain an employer from making an on-demand call where, for example, (a) the contractor was in no way responsible for the circumstances necessitating a call; and/or (b) any call would cause disproportionate harm to the contractor, such as its insolvency.

The recalibration of the mega-project portfolio has, in itself, generated a wave of contractual claims and disputes. However, the legal landscape has been further – and significantly – complicated by the geopolitical events of early 2026.

The Iran conflict, the Strait of Hormuz crisis and tools to address unexpected disruptions

The eruption of the Iran–US–Israel conflict on 28 February 2026 has introduced a new layer of risk to Saudi projects. The Strait of Hormuz – through which approximately 20% of global petroleum consumption transits – has been closed by Iran. A significant proportion of the Kingdom's imported construction materials also pass through this chokepoint. Saudi Arabia's two principal Gulf-side ports, King Abdulaziz Port in Dammam and the industrial port at Jubail, sit inside the strait.

Maritime war risk insurance premiums have increased by over 1,000%, major shipping lines have suspended routes, and Chinese steel shipments, being the single largest source of imported construction material for Gulf projects, have stalled. Iranian drone strikes have reached Saudi territory, airspace closures have disrupted workforce mobility, and an estimated 60–70% decline in foreign direct investment (FDI) inflows was reported for Q1 2026.

Against this backdrop, force majeure and other notices are being issued on infrastructure projects across the Kingdom. The central legal question is whether, and in what circumstances, the conflict and its consequences entitle a party to relief, and if so, under which mechanism. The CTL provides three principal tools relevant to this analysis, which are addressed below.

Force majeure

Article 110 of the CTL addresses force majeure in its classic civil law sense. It provides that where the performance of an obligation in a bilateral contract becomes impossible for a reason beyond the debtor's control, the obligation and the corresponding obligation are extinguished, and the contract is automatically terminated. Where impossibility is only partial, the obligation is extinguished only in respect of the impossible part – and the creditor may, in either case, request termination of the contract (although the court may dismiss the request if the impossible part is insignificant).

The defining feature of Article 110 is objective impossibility – not mere difficulty, increased cost, or commercial hardship. Impossibility is a high threshold, which is likely to be difficult to overcome even in the current circumstances. The consequence is binary: the contract terminates, or it does not. There is no intermediate remedy of price adjustment or extension of time under this provision alone.

Article 110 is not a mandatory rule of public policy. Indeed, Article 174 of the CTL expressly provides that parties may agree that the debtor will bear liability for force majeure. This means that where a construction contract contains a bespoke force majeure clause, as do most FIDIC-based contracts, that clause takes precedence over Article 110.

Under the FIDIC standard forms, a qualifying "Exceptional Event" (the term used in the 2017 edition, replacing "Force Majeure" in the 1999 edition) must be (a) beyond the party's control; (b) one which such party could not reasonably have provided for before entering into the contract; and (c) having arisen, one which such party could not reasonably have avoided or overcome. The event must also not be substantially attributable to the other party. War and hostilities are expressly listed as qualifying events – provided these criteria are satisfied.

The FIDIC standard forms require a causal link between the event and the prevention of performance. Like its CTL force majeure counterpart, this is a high threshold that may not be satisfied where the conflict causes delay, disruption and cost increases, but does not render performance strictly impossible.

Hardship or exceptional circumstances

Article 97 codifies the doctrine of exceptional circumstances (*al-hawadith al-tari'a*), sometimes referred to as *imprévision* or hardship. It applies where unforeseen events of a general and exceptional nature render the performance of a contractual obligation, while not impossible, excessively onerous in a manner that threatens the debtor with grave loss. The remedy is not termination but renegotiation and judicial recalibration; if the renegotiation fails, the court may reduce the burdensome obligation to a reasonable level.

Article 97 is of particular significance because of its mandatory nature – any agreement to the contrary is void. This means that even where a construction contract purports to exclude or limit relief for events that qualify as hardship or unforeseen circumstances – as some amended FIDIC contracts may do – Article 97 provides a statutory safety net that cannot be excluded.

While this represents a significant structural protection for contractors, the "excessively onerous" threshold is high. Courts will assess not only whether it is met but also whether the contractor took reasonable mitigation steps. Moreover, the available relief – reduction of the burdensome obligation – may not adequately address the grave losses that a party may be facing.

Relief specific to construction contracts

Article 471 (3) of the CTL provides a further mechanism specific to construction contracts (*muqawala*). It applies where the contractual balance between the obligations of the employer and the contractor collapses due to general exceptional circumstances that could not have been foreseen at the time of contracting, and the basis upon which the financial assessment was determined is destroyed.

In such circumstances, the court (or the tribunal) may, depending on the circumstances, after balancing the interests of the parties, restore the contractual balance – including by extending the execution period, increasing or decreasing the remuneration, or terminating the contract.

Article 471 (3) is notable because it expressly provides for extensions of time and increased costs as remedies – a feature absent from Article 97. It applies specifically to the construction context where the financial basis of a lump-sum contract has been undermined by Exceptional Events. This provision is particularly relevant to contractors facing dramatic cost increases arising from Strait of Hormuz-related supply chain disruption, where the price basis on which they tendered has been fundamentally altered.

Unlike Article 97, Article 471 (3) is not expressly stated to be mandatory. Accordingly, the parties may modify it by agreement.

This brief and non-exhaustive overview of tools illustrates that the classification of the disruption – as impossibility or as hardship – determines both the available remedy and the parties' strategic options. The boundary between the two is likely to become increasingly contentious in Saudi construction law.

Outlook: anticipated claims and practical guidance

The combined effect of mega-project recalibration and geopolitical disruption is producing an increase in construction claims in Saudi Arabia that is expected to intensify throughout 2026 and beyond.

The Saudi Center for Commercial Arbitration (SCCA) recorded 182 new filings in 2025 – a 63% increase on the previous year – with construction and engineering disputes accounting for 47.3% of all filings. This section briefly identifies the principal categories of claims that project participants should anticipate, before offering practical guidance on navigating the current environment.

Anticipated categories of claims

The following categories of claims are expected to dominate the Saudi construction disputes landscape in the near future:

- Termination and suspension claims arising from the mega-project recalibration, including disputes over:
  (a) the scope of contractor entitlements upon employer-initiated termination;
  (b) the characterisation of re-scoping as constructive termination; and
  (c) calls on performance bonds during periods of project dormancy.
- Force majeure and hardship claims arising from the Iran conflict, including disputes over the classification of the disruption (impossibility versus excessive onerousness) and the invocation of the CTL mandatory protections.
- Price escalation claims, particularly on lump-sum contracts where the cost basis has been fundamentally altered by supply chain disruption, war risk premiums, and the unavailability of original sourcing routes.
- Delay and prolongation claims of unusual complexity, driven by overlapping and concurrent causes, which resist straightforward causal analysis, including:
  (a) supply chain interruption;
  (b) workforce displacement;
  (c) airspace closures;
  (d) insurance market withdrawal; and
  (e) employer-initiated suspension.
- Cascading subcontractor claims, where force majeure relief at the main contract level does not automatically flow through multi-tiered subcontract chains (and vice versa), creating financial pressure on main contractors who must manage claims from below while pursuing claims above.

Practical guidance for project participants

To navigate this turbulent environment, project participants should consider, among others, the following practical guidance points:

Contractual notice requirements

Most FIDIC-based contracts in Saudi Arabia impose strict notice requirements as a condition precedent to the contractor's entitlement to additional time or cost. For instance, under the FIDIC 2017 Red Book, notices of Exceptional Events must be given within 14 days (clause 18.2), while claims for additional payment or extensions of time must be notified within 28 days (clause 20.2). Many claims – including for Exceptional Events – will require both notices to be served. Failure to comply may result in the contractor's entitlement being lost or limited.

While notice requirements will always be considered through the prism of mandatory provisions of Saudi law – such as the CTL's good faith obligation and the prohibition on abuse of rights – loss of entitlement due to non-compliance will always be a material risk. In the circumstances, notices should, to the extent possible, be served promptly and in the prescribed form.

Detailed contemporaneous documentation

Saudi courts and arbitral tribunals require evidence of a causal link between the claimed event and its impact on performance – a prerequisite for relief under both the contractual and statutory regimes.

To help substantiate their claims, parties should maintain contemporaneous records illustrating the relevant events and their impact, such as:

- government announcements and directives;
- shipping and port data demonstrating material unavailability;
- insurance correspondence evidencing coverage withdrawal or premium escalation;
- supplier notices of delay or force majeure; and
- evidence of airspace closures and site access restrictions.

Active mitigation steps

Under FIDIC contracts, the party claiming relief must demonstrate that it took all reasonable steps to minimise the impact of the disruption and to overcome its effects. While the CTL does not impose a positive duty to mitigate, any compensation will be reduced to reflect the extent to which a party contributed to its own loss and damage.

In the current Strait of Hormuz crisis, parties should consider exploring alternative procurement routes via Red Sea ports such as Jeddah and Yanbu (which are accessible without transiting Hormuz); sourcing from domestic manufacturers where available; or engaging with counterparties to agree interim arrangements pending resolution of the disruption. A contractor who fails to explore available alternatives – and to document those efforts – risks having its claim challenged on the basis that the alleged impossibility and losses were self-inflicted.

Early engagement with dispute resolution strategy

Given the complexity and overlapping nature of the anticipated claims, early engagement with legal counsel and experts is essential to help substantiate such claims, explore their merits, and maximise their prospects of success.

Parties should also consider their forum options: the SCCA is the primary institutional forum for arbitrating construction disputes in Saudi Arabia, with the Board of Grievances and local courts also potentially relevant depending upon the project and contract in issue.

Conclusion

Saudi Arabia's construction sector is navigating a period of exceptional legal and commercial complexity. The recalibration of the mega-project portfolio has exposed contractual fault lines inherent in amended standard forms. The Iran conflict has activated force majeure and hardship provisions in the CTL that are receiving their first significant wartime application since the law came into force in December 2023. The resulting disputes will generate jurisprudence and practical lessons on questions that will be instrumental in shaping Saudi construction law.

For practitioners and project participants, the path through this period requires a combination of contractual discipline, statutory awareness, rigorous contemporaneous documentation, and early strategic engagement with the dispute resolution process.

Trends and Developments

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