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Industry Update

Rising Uncertainty and Shifting Risks: How Market Conditions Are Forcing EPC Reform in the GCC

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Introduction

Recent trends in regional and global market conditions pose significant challenges for developers of large-scale energy and infrastructure projects across the Gulf Cooperation Council (GCC). In 2026, procurement complexity has reached unprecedented levels — driven by high demand for engineering, procurement and construction (EPC) services and global macroeconomic and geopolitical uncertainties and trends. In a market where procurers and employers have historically held significant bargaining power, the balance of power is increasingly shifting toward contractors, placing traditional procurement models under strain.

Demand vs. Supply: A Seller's Market

The surge in recent regional megaprojects has outpaced contractor capacity in the GCC. The resulting increased demand for contractors/suppliers is prevalent across multiple industries, including oil and gas, petrochemicals, digital infrastructure and renewables/green energy. A general shortage of specialized and competent contractors, in combination with a regional trend towards localization and local content prioritization, is further compounding the issue.

Top-tier EPC contractors are now able to cherry-pick opportunities and prioritize strategic partnerships, while mid-tier contractors often lack the capability/scale required for complex megaprojects. As a result, regional developers find themselves competing for the same top-tier firms, leading to upward pressure on prices, fewer bids per tender, longer lead times and increased contractor selectivity and bargaining power (as we further explain below) — a trend that is particularly pronounced in specialized sectors such as offshore construction and digital infrastructure, including AI data centers.

The rise in EPC contractor bargaining power has resulted in a power shift in EPC negotiations — EPC contractors are increasingly able to negotiate more favorable contractual terms. Traditionally, regional procurers held strong bargaining power in negotiations and could insist on fixed-price models, with limited scope for time/cost adjustments and employer-friendly, “EPC”-style risk allocations. Increasingly, however, EPC contractors are resisting traditional EPC/lump sum turnkey (LSTK) models and instead making demands for alternative contracting strategies, including for beneficial payment schedules (with an increase in front-loaded payments), cost-plus models (particularly on projects with aggressive timelines and where employers are willing to entirely assume the cost risk), reduced liability (including for delays or scope changes), cost escalation mechanisms (such as by reference to specific material costs, including steel and cement over the last few years, or indices), and greater control and autonomy over subcontracting and sub-supplier procurement.

While these shifts may present immediate challenges to regional developers, they present the opportunity for longer-term benefits. These changes are forcing procurers to engage more closely with risk allocations under their contracts — encouraging discussions over which party is truly best positioned to manage specific risks. This marks a departure from the “contractor takes all risk” sentiment that has been prevalent in GCC procurement for so long and signals a move towards a more balanced approach, whereby the party that is best equipped to handle a particular risk assumes responsibility for such risk. This is also leading to a better overall value proposition for project developers, as contractors are reducing risk premium contingencies in their bids.

High-profile examples of such rebalancing of risk are beginning to emerge: ADNOC is selectively exploring using alternative procurement strategies, NEOM is using collaborative contracting in certain key projects and IChemE released a dedicated engineering, procurement and construction management (EPCM) form (the Blue Book). The shift towards collaborative and flexible contracting models has the potential to drive further successful project outcomes by reducing disputes, minimizing cost overruns and delays, and lowering the risk of contractor insolvency.

Uncertain Costs and Budgeting Pressures

Global inflation and commodity price volatility have driven up the cost of materials, equipment, logistics and labor. While impacting EPC contractors and employers alike, these costs are often passed onto project developers, resulting in increased budgeting uncertainty and escalating internal contingencies. Sustained “low” and falling oil prices in recent years have further complicated matters and raised concerns about future project funding feasibility in the GCC — at the time of writing, Brent crude is trading at circa \$65/barrel, a 46% reduction from 2022 highs of \$120+/barrel.

In an effort to mitigate such risks, developers are increasingly looking to alternative procurement models, including early contractor involvement (ECI), two-stage tendering (FEED + EPC), and advanced work packaging and phased contracting to help control costs and address the competing needs for flexibility versus the internal pressure for budgeting certainty. Through targeted cost escalation mechanisms, developers are seeking to limit exposure; however, the practical economic reality is increasingly becoming apparent — traditional budgeting models are failing to address rising cost contingencies.

Evolving Technologies

New technologies, in combination with growing pressure for EPC contractors to modernize and integrate advanced tools, has seen a huge modernization in contracting practices, with project owners and EPC contractors increasingly looking to technology for solutions. Advanced analytics and AI tools are increasingly used to help predict price spikes and supply chain bottlenecks. Building information modelling (BIM) is increasingly used to optimize design and project execution, which reduces human error, shutdown time and waste while increasing communication efficiencies. Real-time monitoring and predictive analytics are increasingly being demanded and used. While these technologies are beneficial for project delivery and efficiencies, many EPC contractors (particularly smaller and mid-tier firms) lack in-house capability or maturity to deliver these services digitally, widening performance gaps between EPC contractors and further straining demand for top-tier contractors.

Geopolitics and Supply Chain Risk

A climate of global geopolitical uncertainty, including tensions in the Middle East, tariffs, sanctions, supply chain/shipping shortages and depressed oil prices, continues to complicate project logistics, planning and procurement and leads to increased costs. While freight/shipping prices have generally declined in recent years (compared to their post-COVID all-time highs), shipping costs and pricing volatility remain well above pre-pandemic “norms” and are compounded by ongoing issues such as continued vessel rerouting, port congestion, higher operational costs and ongoing tensions in the Middle East (for example, Houthi rebel attacks in the Red Sea resulted in around 50% of Suez-bound traffic being diverted, increasing delays by an average of 20 days and regional freight costs by 400%). Such issues highlight the vulnerability of supply chains to logistical risks, delaying and complicating delivery timelines and planning and resulting in procurers bearing more risk, including for shipping delays and price fluctuations.

Although such extraneous circumstances are inherently hard to predict and manage, sophisticated contractors are increasingly developing and adopting advanced risk assessment and management frameworks, strengthening and diversifying their supply chains, adopting sensible contingency planning measures, ensuring greater contractual flexibility, and utilizing and leveraging the latest technologies (see above) to help predict price spikes and manage supply chain bottlenecks.

Push for Sustainability

Stakeholders, including governments, lenders, procurers and shareholders, are increasingly placing emphasis on improving efficiency and reducing the carbon footprint of projects. Such requirements are becoming a non-negotiable, especially for lenders. The GCC is increasingly adopting ambitious and bold environmental targets, including for net zero (by 2050 in the UAE and by 2060 in Saudi Arabia).

While admirable in their aims, in the short term, stringent environmental requirements pose challenges to capital availability and project delivery. Shareholders and lenders — who are already increasingly reluctant to finance large-scale infrastructure projects, projects in the oil and gas sector, or projects with a significant carbon footprint — are placing an increasing insistence on risk averse positions. Procurers now need to assess environmental, social and governance (ESG) capacity as a core evaluation criterion, further increasing project delivery costs and adding another layer of complexity in planning.

Outlook Going Forward

Throughout 2026, project developers across the GCC will continue to operate in a fundamentally uncertain procurement landscape. Shifting market dynamics demands agility, strategic partnerships and a willingness to reconsider and update existing contracting models. Those that adapt — through digitalization and embracing flexible contracting models — and build long-term relationships with top-tier contractors will be best positioned to deliver on the region's ambitious infrastructure and energy goals in the years ahead.



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