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Market update: What has changed since our March briefing

Middle East conflict, implications for Australian projects | May 2026

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Executive summary

Since our March briefing, some risks are now appearing in pricing and procurement behaviour. Others remain possible, but are not yet evident in outcomes.

Where the geopolitical situation goes from here is uncertain. The better approach is to focus less on prediction and more on the factors that can be tested, managed and controlled.

This paper is structured around three decision points: early stage feasibility and budgeting, projects negotiating construction contracts, and ongoing projects under construction. Across all three, the evidence points to selective pressure rather than broad escalation:

- Bitumen: A clear stepchange in published bitumen indices is now evident, with emerging whole-of-life asset risks
- Fuel: Diesel price pressure has become more sustained, with fuel surcharges and formal fuel cost recovery mechanisms flowing through the contracting chain
- Shipping and logistics: War risk insurance and routing changes are driving higher freight costs, shorter price validity periods and reduced appetite for fixed pricing, particularly for imported or long lead components
- Materials: Pricing and validity risk is now clearer for selected polymer based products

The dominant risk is not volatility itself, but poor responses to uncertainty. Projects performing best isolate specific exposures and use clear mechanisms.

Cutting through the noise: what has changed and what has not

When we issued our **market briefing** in late March, the escalation in the Middle East was less than three weeks old. Our view then was that the main risk to Australian projects was volatility, not a structural break in supply.

Some commentators are suggesting double digit cost escalation because of the conflict. In our view, this is not supported by the data at this stage. The practical question for clients is not whether a single escalation percentage exists, but how to make decisions at each stage of a project without anchoring to headlines or shifting unquantified risk into fixed prices.

1 Decision stage 1: Budgeting at pre-design and design stage

2 Decision stage 2: Projects negotiating construction contracts

3 Decision stage 3: Ongoing projects under construction

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Decision stage 1: Budgeting at pre-design and design stage

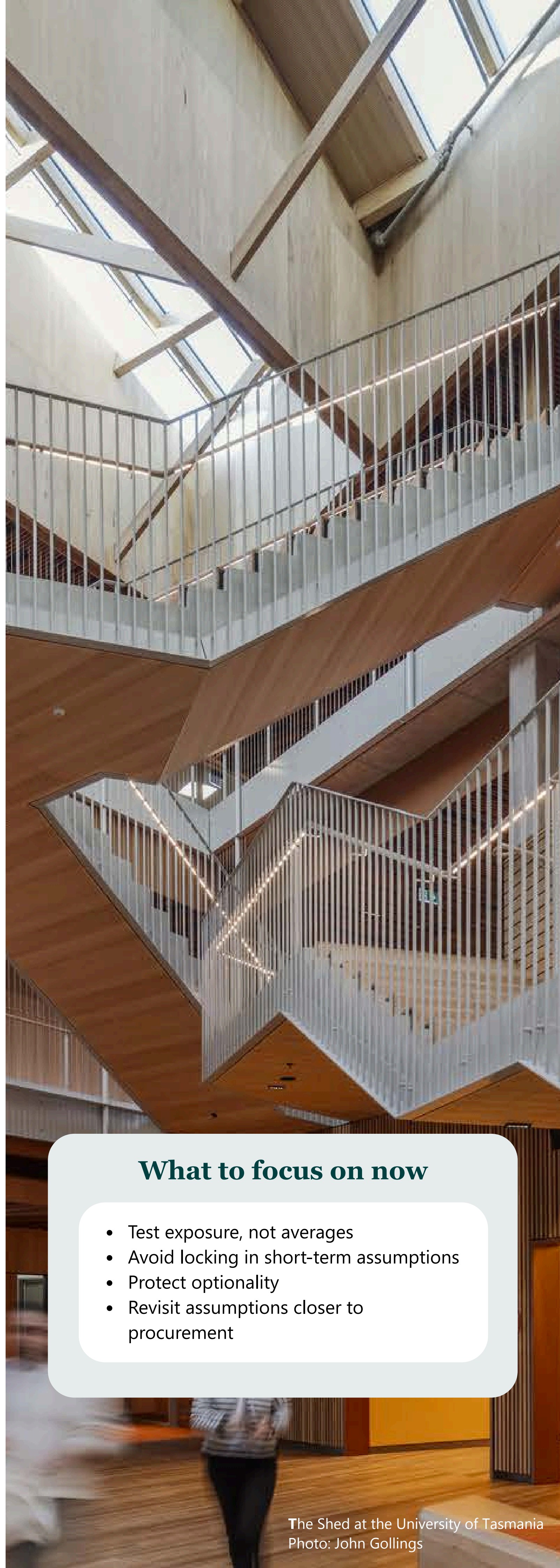
At early stage, adding a percentage to a cost plan is easy. The harder task is determining whether the uplift is real for your project and whether it changes feasibility in a way that would still hold in six to twelve months. Blanket allowances can force unnecessary value engineering, deferral or cancellation.

The better approach is to test sensitivity on the drivers that matter. Where the business case is marginal, the most effective lever may be staging, procurement sequencing or timing, not scope reduction.

For projects still years from procurement, treat alarmist contractor ECI allowances with caution. Do not lock in short-term conflict premiums or pre-conflict escalation baselines without clear evidence, agreed triggers and a commitment to re-test the estimate closer to market entry.

We are not seeing widespread delays or cancellations on committed projects. Delivery continues, particularly where pricing has been negotiated, relationships are well established, or scopes were substantially locked in prior to escalation.

Attention is shifting to the forward pipeline. The key question is whether volatility affects project affordability, timing and investment decisions. Where refreshed cost plans no longer fit approvals, expect deferrals, staged delivery or scope adjustment.



What to focus on now

- Test exposure, not averages
- Avoid locking in short-term assumptions
- Protect optionality
- Revisit assumptions closer to procurement

The Shed at the University of Tasmania
Photo: John Gollings

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Decision stage 2: Projects negotiating construction contracts

The market response is showing up in tender validity, qualifications and adjustment mechanisms.

What we described in March as emerging contractor behaviour is becoming more consistent:

- shorter tender validity periods,
- targeted qualifications on fuel, freight and materials,
- increased use of provisional sums or capped escalation mechanisms, and
- resistance to blanket "cost escalation" clauses.

This reflects a reset in risk allocation, not a one-off reaction.

Where contracts lack clear escalation pathways, we are seeing increased claims tension and inconsistent outcomes. Conversely, where mechanisms are well defined and evidence requirements are clear, negotiations are progressing.

For civil and road projects, rise and fall mechanisms tied to published indices remain the main intended adjustment pathway for inputs such as bitumen. Clear mechanisms and agreed evidence thresholds reduce the risk premium that otherwise gets priced into lump sums. Deals are still getting done, particularly where scope is clear and decisions are timely.

What to prioritise in contracts

- Align governance to validity
- Use targeted mechanisms
- Set evidence thresholds upfront
- Focus on clarity, not transfer

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Decision stage 3: Ongoing projects under construction

For live projects, the practical issues are cost and time impacts, procurement lead times, and claims behaviour. Better outcomes come from early engagement, shared data and fair adjustments that preserve delivery and value.

Force majeure and delay provisions are being explored on some projects. Outcomes remain highly contract specific and dependent on drafting, notice provisions and evidentiary thresholds. We are not seeing a consistent Australian precedent emerge, and claims behaviour continues to vary by project, sector and commercial relationship.

What to manage during delivery

- Address cost movement early
- Distinguish entitlement from outcome
- Target adjustments, not broad relief
- Maintain discipline in change control

> "Although force majeure clauses commonly list "war" or "hostilities" as trigger events, claiming relief is rarely straightforward. Key issues include contractual thresholds (does the clause require the event to "prevent" performance, or merely "hinder" or "delay" it?), location requirements (must the event occur in Australia or can it occur anywhere?), and causation (the link between the Middle East conflict and local operations involves multiple steps).
>
> Critically, force majeure usually excuses non-performance, it does not provide compensation where performance becomes more expensive. Unavailability of fuel versus increased cost of fuel is a critical distinction. In practice, many principals are taking a pragmatic approach, offering temporary pricing adjustments or rise-and-fall mechanisms tied to published indices rather than insisting on strict contractual positions that risk contractor insolvency or unsustainability in the supply chain."

Jonathon Williams, Partner, MinterEllison

Bottom line

The issue is manageable, but it deserves active management rather than monitoring. Since March, cost pressure has become clearer and is flowing through contracts and procurement, not just headlines. The key risk is not volatility itself, but blunt responses that misallocate risk or distort feasibility. The best position is clear scope, defined mechanisms and timely decisions.

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Appendix: Evidence and market signals

A1. Energy and fuel pricing

In March, we noted early volatility in global energy markets flowing into Australian diesel pricing, with no confirmed supply interruption. Since then:

- Industry evidence now points to sustained diesel price pressure, with fuel surcharges more common across civil, logistics and plant-intensive scopes.
- Contractors are less willing to absorb open-ended fuel risk and increasingly seek explicit fuel adjustment mechanisms, often with caps or commodity-specific triggers.

Recent measures, including the temporary halving of fuel excise and changes to road user charges, have lowered headline pump prices. The commercial benefit is uneven. Under the Fuel Tax Credit regime, many operators see little net gain because lower pump prices are offset by lower Fuel Tax Credit entitlements. Others, particularly on-road users without full credit offsets, may see partial relief of about 32 cents per litre. Overall, the measures are modest relative to broader diesel price movements and do not materially change the risk profile for fuel-intensive projects. Diesel prices rose sharply after the escalation, with some markets up more than 70% at the peak before easing.

> “In the face of increased fuel costs across the subcontracting chain, the Fair Work Commission has also taken steps to enable parties to pass up their increased costs to the head contract.
>
> From 21 April 2026, the Road Transport Contractual Chain Order – Fuel Cost Recovery – 2026 requires primary parties in a road transport contractual chain to adjust rates fortnightly to ensure recovery of increased fuel costs. They must also take reasonable steps to ensure those adjustments flow down the chain to regulated contractors and employee-like workers.
>
> The Order covers all road transport work, including principals and clients who procure goods delivered by road. It ceases to apply if the national average diesel terminal gate price falls below $2.00 per litre. Non-compliance attracts civil penalties.”

Allie Flack, Special Counsel, MinterEllison

What has not changed

There remains no evidence of an immediate Australian fuel shortage. The issue continues to be price volatility and cost transfer, not physical unavailability. Australia’s fuel supply base has also diversified through new or expanded arrangements across multiple source markets, reducing immediate shortage risk despite ongoing price volatility.

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A2. Shipping and logistics

In March, we said shipping disruption was rising, particularly from Red Sea diversions, with the main effects in freight costs, insurance and lead-time variability rather than broad supply failure. Since then:

- Shipping routes remain disrupted and more expensive, with re-routing extending transit times and increasing price uncertainty.
- Australian projects with imported or long-lead components continue to face shorter price validity and less appetite for fixed pricing.

What has not changed

There is still no evidence of widespread material shortages in Australia. Risk remains selective and package-specific.

Client alert: shipping insurance risk transfer

Disruption to shipping routes through the Red Sea and the Strait of Hormuz has increased war-risk insurance premiums, reduced cover and shortened policy periods. These pressures are flowing into freight pricing, supplier confidence and procurement terms, including fewer fixed-price offers and shorter validity periods. Materials remain broadly available, but risk is shifting from insurers and shippers into Australian contracts. The impact is showing up most in tendering and procurement, not headline shortages.

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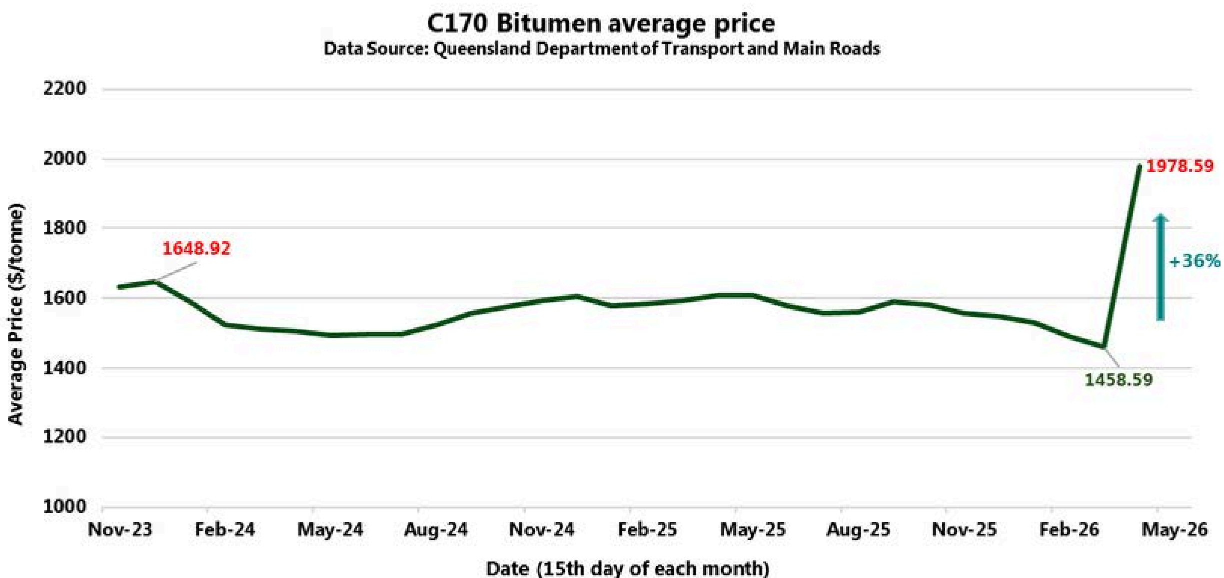
A3. Bitumen and road inputs

In March, we identified bitumen as an early-sensitive input and noted that initial increases could reflect normalisation from a low base rather than a geopolitical step-change.

Since then, published state indices show a clear step-change between March and April 2026 across multiple jurisdictions, including the Queensland Department of Transport and Main Roads release below:

> **"Bitumen supply is experiencing immediate and significant tightening as a result, and there is a real risk of stock depletion and stock outs in the near term."**
>
> Australian Flexible Pavement Association (AfPA), Global Bitumen Supply Chain Disruption statement, March 2026



In parallel:

- Industry bodies report cancelled supply commitments and offshore force majeure notifications.
- Availability, spec compliance and lead times are emerging as secondary risks for road and asphalt intensive projects.

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Specification relaxation and whole-of-life risk

Recent industry and government responses have introduced a risk beyond price. Reporting indicates some jurisdictions are temporarily relaxing Australian bitumen standards to allow offshore materials that do not meet historic specifications, to keep roadworks moving. Technical advice suggests these harder, non-standard grades may materially shorten pavement life.

Industry bodies have made the same point, warning that the waiver grades differ materially from Australian standards and are likely to reduce pavement life, increase maintenance frequency and raise long-term asset risk.

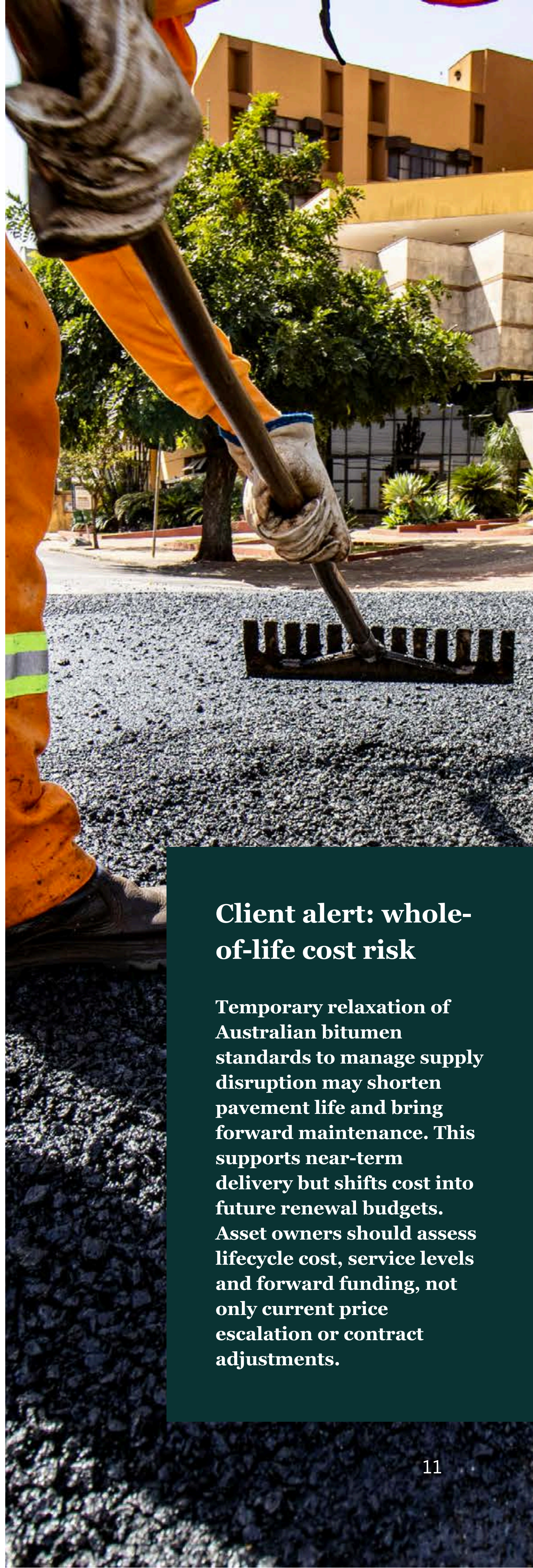
What has changed

Bitumen escalation is now confirmed, with emerging whole-of-life asset risk.

Implications for local government road asset owners

Local governments are likely to be most exposed. Councils manage about three quarters of Australia's road network and carry long-term maintenance responsibility within constrained, often inflexible renewal budgets. Shorter pavement life brings forward intervention cycles without creating new funding capacity.

The main risk is whole-of-life cost escalation rather than immediate capital overrun. The more likely effects are service pressure and deferred renewal backlogs over the medium term, particularly in regional and remote networks where wear sensitivity is higher.



Client alert: whole-of-life cost risk

Temporary relaxation of Australian bitumen standards to manage supply disruption may shorten pavement life and bring forward maintenance. This supports near-term delivery but shifts cost into future renewal budgets. Asset owners should assess lifecycle cost, service levels and forward funding, not only current price escalation or contract adjustments.

A4. Materials exposure beyond bitumen

In March, we identified exposure pockets in:

- polymer based products (PVC, HDPE),
- energy intensive metals, and
- long lead mechanical and electrical plant.

Since then:

- Price movement has been confirmed in selected polymer-based products, with suppliers increasingly reluctant to fix pricing without escalation allowances.
- Mechanical and electrical packages remain exposed primarily through lead-time and pricing validity risk, rather than immediate cost spikes.

What has not changed

This is not a universal materials inflation event. Risk remains concentrated in identifiable inputs and scopes.

Client alert: polymer product price risk

Polymer based construction products, including PVC, HDPE and membrane systems, are increasingly exposed to pricing uncertainty rather than physical shortage. Elevated energy costs, feedstock exposure and freight volatility are reducing suppliers' willingness to hold fixed prices, resulting in shorter price validity periods and greater use of escalation qualifications. For projects with polymer intensive scopes, risk is emerging through loss of price certainty and procurement timing, rather than headline material scarcity.

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Thank you to Allie Flack and Jonathon Williams at MinterEllison for contributing legal commentary as noted.

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