War Series: Paper Barrels and Physical Constraints – The Limits of Force Majeure in the 2026 GCC Energy Shock

September 27, 2026

“In the inevitable collision between paper contracts and physical supply chains, physical reality ultimately dictates the terms.”

The Divergence of Paper and Physical Energy A recurring theme in macroeconomic and energy analysis is the fundamental disconnect between financial abstractions and physical reality. The modern economy operates on the assumption of uninterrupted primary energy flows. As the 2026 Iran War destabilizes the Arabian Gulf, the region is experiencing a severe, real-world stress test of that assumption.

While the Gulf Cooperation Council (GCC) remains the undisputed epicenter of global hydrocarbon production, the intense militarization of shipping lanes and sudden refining bottlenecks have severely constrained the downstream supply of refined products. Diesel and bunker fuel are the master resources of the physical economy. Without them, the sprawling infrastructure pipelines in Saudi Arabia, the logistics hubs in the UAE, and the massive backup generators required for the region’s data centers simply grind to a halt.

For years, procurement teams at major regional contractors managed their energy exposure through long-term, fixed-price diesel supply agreements. These contracts were viewed as ironclad hedges against market volatility. However, this strategy relied on the flawed premise that a paper contract can indefinitely command physical delivery, regardless of macroeconomic or geopolitical conditions. Paper barrels do not power generators.

Today, those fixed-price contracts are deeply out of the money. Spot prices for refined products have spiked dramatically, and commercial fuel suppliers are operating at severe losses with every truck they dispatch. Predictably, these suppliers are issuing sweeping “Force Majeure” notices, unilaterally suspending deliveries, and demanding immediate price renegotiations.

Within the region’s commercial sectors, there is a growing misconception that extreme market volatility automatically excuses contractual performance. It is critical to examine this through the lens of established GCC civil law, which takes a highly structured, unsentimental approach to separating economic friction from true contractual impossibility.

The Unified GCC Legal Framework: Impossibility vs. Hardship When a fuel supplier unilaterally halts deliveries during a regional conflict, their primary defense is Force Majeure. However, the civil codes across the entire GCC, which share a deeply intertwined jurisprudential DNA heavily influenced by the Sanhuri model, draw a strict, unforgiving line between *absolute impossibility* and *extreme financial hardship*.

Across the region, Force Majeure requires an unforeseeable event that renders the performance of a contract physically or legally impossible. Only then is the obligation extinguished. Conversely, the doctrine of *Exceptional Circumstances* (or Hardship) applies when an unforeseeable public event occurs and performance remains physically possible, but has become so economically burdensome that it threatens the supplier with “grave loss.” Crucially, this doctrine does *not* allow the supplier to unilaterally terminate the agreement.

This vital duality is explicitly codified across the major Gulf jurisdictions:

- **The United Arab Emirates:** Article 273 of the Civil Transactions Law governs Force Majeure (impossibility), while Article 249 governs Exceptional Circumstances (hardship).

- **Kingdom of Saudi Arabia (KSA):** Under the recently enacted KSA Civil Transactions Law (Royal Decree M/191 of 2023), Article 125 dictates Force Majeure, whereas Article 97 provides for judicial intervention when unforeseeable circumstances make performance “oppressive” to the debtor.
- **Qatar:** The Qatari Civil Code (Law No. 22 of 2004) mirrors this structure precisely in Articles 258 and 171.
- **Oman and Kuwait:** Similar structural divides exist in the Omani Civil Transactions Law (Arts. 172 and 159) and the Kuwaiti Civil Code (Arts. 215 and 198).

Price Shocks Are Not Force Majeure To understand how regional courts apply these codes during commodity shocks, we can look to historical precedents. Following the 2008 global financial crisis and subsequent commodity supercycles, suppliers of highly volatile industrial materials faced catastrophic price spikes. Bound by fixed-price contracts, many claimed Force Majeure and halted deliveries.

The regional courts, setting a jurisprudential standard widely respected and cited across the GCC, have generally established a definitive rule: **A massive, unexpected increase in procurement costs, even if triggered by an unforeseeable geopolitical black swan, does not render a contract “impossible” to perform.**

If the physical molecules of diesel exist in the spot market, the supplier can technically procure and deliver them. The fact that doing so erodes profit margins and threatens the supplier’s balance sheet constitutes a *relative* impossibility (hardship), not an *absolute* one (Force Majeure). Therefore, any supplier who unilaterally halts fuel deliveries based solely on market price surges is in material breach of contract.

The Judicial Pressure Valve The legal system, however, recognizes that rigidly enforcing economically ruinous contracts can trigger systemic cascading defaults across the supply chain. Bankrupting regional logistics providers serves neither the project owners nor the broader economy.

This is where the doctrine of Exceptional Circumstances acts as a vital pressure valve. It grants the presiding judge or arbitral tribunal the exclusive authority to intervene. By reviewing forensic financial data, a tribunal can equitably distribute the “grave loss.” The judge may force the buyer to absorb a calculated percentage of the price surge, while mandating that the supplier continues deliveries at a newly adjusted rate.

The key legal distinction is procedural: the supplier cannot simply stop pumping fuel while demanding higher rates. They must maintain physical performance while formally petitioning the court to restore the economic balance of the contract.

When Sovereign Rationing Intervenes While market price surges do not trigger Force Majeure, the 2026 Iran War introduces a variable that absolutely does: Sovereign Energy Rationing.

If a GCC Ministry of Energy, national oil company, or sovereign military command issues a formal decree limiting commercial diesel allocations, perhaps capping them at 40% of pre-war volumes to preserve strategic reserves, the legal paradigm immediately shifts.

A direct sovereign rationing order is a true “foreign cause.” It creates an absolute legal impossibility. If a supplier fails to deliver the remaining 60% of the contracted fuel because the state redirected the refinery output, they are completely shielded under the Force Majeure provisions across all GCC civil codes. The buyer cannot claim delay damages or demand the supplier procure fuel on the grey market to circumvent a sovereign mandate. When physical constraints are enforced by state power, the commercial contract must yield.

The Wartime Playbook for Energy Logistics For EPC contractors, heavy logistics operators, and energy suppliers navigating the supply constraints of the 2026 conflict, adhering strictly to regional legal frameworks is essential for mitigating risk:

- **For the Buyers – Audit the Notices:** Do not accept blanket Force Majeure notices at face value. If the supplier’s inability to deliver stems entirely from spot-market price inflation, issue a formal Notice of Breach. Regional jurisprudence makes it clear that market volatility is not a valid basis for unilateral termination.
- **For the Suppliers – Maintain Supply While Seeking Relief:** Unilaterally suspending fuel deliveries is a critical error that exposes the firm to substantial delay damages. Suppliers must continue physical performance while simultaneously invoking the Exceptional Circumstances provisions in local courts or tribunals to seek a formal, judicially mandated price adaptation.
- **For All Parties – Document Sovereign Intervention:** If fuel deliveries are halted due to state-imposed rationing, informal communications from downstream distributors are legally insufficient. To successfully invoke Force Majeure, the impacted party must formally serve the counterparty with the published government decrees, ministry circulars, or military orders demonstrating that the shortfall was dictated by sovereign mandate rather than commercial preference.

Takeaway The 2026 Iran War has profoundly disrupted the fundamental inputs of regional commerce. Businesses find themselves navigating a narrow corridor between severe price surges and the reality of state-level resource rationing. The assumption that fiat agreements can entirely insulate operations from physical supply chain shocks is no longer viable.

The GCC civil law frameworks provide a pragmatic, structured mechanism for managing this disruption. The law rigorously protects the sanctity of contracts against mere market panic, while allowing for judicial intervention to prevent systemic economic collapse. Companies cannot use geopolitical volatility to unilaterally walk away from unprofitable agreements, but they can leverage statutory doctrines to ensure an equitable sharing of the wartime burden. Ultimately, success requires aligning legal strategy with physical market realities.

Wasel & Wasel advises on complex commercial disputes, international arbitration, and cross-border financial litigation. The firm represents major corporate entities, regional contractors, and energy suppliers in high-stakes proceedings before various courts and tribunals across the GCC. Our practice includes navigating complex force majeure claims, litigating the application of exceptional circumstances and contract adaptation, managing multi-jurisdictional supply chain disputes, and enforcing contractual rights amidst geopolitical crises and sovereign interventions.

Author: Mahmoud Abuwasel
Title: Partner – Disputes
Email: mabuwasel@waselandwasel.com
Profile: https://waselandwasel.com/about/mahmoud-abuwasel/

Lawyers and consultants.
Tier-1 services since 1799.
www.waselandwasel.com
business@waselandwasel.com