War Series: Wartime Economic Hardship and Lender Liability – Applying the 2006 UAE Supreme Court Gulf War Precedent to GCC Markets in the 2026 Iran War

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The ongoing 2026 Iran War has introduced significant macroeconomic disruptions across the Gulf Cooperation Council (GCC). As supply chains constrict, project timelines extend, and operational costs rise, many regional commercial entities are turning to their financial institutions for vital liquidity and forbearance. Simultaneously, banks may activate stringent risk management protocols, such as freezing credit facilities or demanding enhanced collateral.

When these financial lifelines are restricted, corporate borrowers would look to the courts. A common legal strategy in GCC civil law jurisdictions is to allege that a bank's sudden refusal to extend credit during a regional conflict constitutes an "abuse of right". Corporate plaintiffs argue that lenders have a customary duty to bear elevated risks and support long-standing clients through macroeconomic crises.

Because GCC states share highly intertwined civil law frameworks, heavily influenced by the Egyptian Sanhuri model, and frequently rely on cross-jurisdictional case law, historical jurisprudence offers critical guidance for these current disputes. UAE Federal Supreme Court Judgment No. 377 of 2006 (Civil), which adjudicated a banking dispute shaped by

the economic aftermath of the Second Gulf War, provides an authoritative and straightforward framework for balancing a bank's legal rights against a borrower's wartime distress.

The "Second Gulf War" Defense: Analyzing the Appellant's Argument

To understand the judgment's direct application to the 2026 conflict, it is necessary to examine the specific arguments advanced by the distressed borrower in 2006, as detailed in the Court's ruling.

The case involved an international commercial group whose bank halted its credit facilities after a twelve-year relationship. The lower courts ruled in favor of the bank, noting that the company suffered a structural deficit exceeding 7.1 million Dirhams (excluding over 5 million Dirhams in existing bank debt and interest), that it had closed its Abu Dhabi offices, and that the requested funds were intended for *new* projects rather than existing ones.

Seeking cassation, the appellants argued that the bank's strict adherence to formal collateral demands during a period of crisis constituted an actionable abuse of right. They attempted to use the prevailing regional instability as a legal shield. Drawing from the Supreme Court's summary of their appeal, the appellants argued that they had provided sufficient guarantees and that the closure of their offices only occurred:

"…after negotiations regarding the real estate guarantees faltered, and due to the bank's insistence on mortgaging the real estate first before considering the request for new facilities, despite the fact that the bank had previously granted it facilities exceeding the guarantees provided."

Crucially, the appellants explicitly linked their demand for banking leniency to the geopolitical climate. They argued that the bank's rigidity definitively proved its arbitrariness and

abuse of right because it violated:

"…banking customs which require the bank to bear the risks of the profession and to stand by its clients out of concern for its funds with them so that they can continue their operations, ***especially in light of the difficult economic conditions the world went through following the events of the Second Gulf War."***

This argument is highly analogous to the legal posture considered to be adopted by GCC companies that may be distressed today that the macroeconomic shock of the Iran War legally obligates financial institutions to demonstrate leniency, waive strict collateral prerequisites, and prioritize corporate survival over standard risk metrics.

The Court's Rationale: Banking Custom During a Crisis

The UAE Supreme Court firmly rejected the premise that the macroeconomic hardship of the Second Gulf War compelled the bank to abandon its standard risk parameters or absorb the borrower's commercial deficit.

Applying Articles 104 and 106 of the UAE Civil Transactions Law, the Court clarified the boundaries of an "abuse of right." The Court acknowledged that while banking custom generally encourages assisting a client in distress, this duty is not absolute and is strictly governed by commercial viability:

"While it is established in banking customs that a bank must assist its client who is in a difficult position, considering this assistance as one of the functions of the bank, the prerequisite for this is that the goal must be to rescue the client from their crisis, ***and not to prolong their death throes or conceal their hopeless condition****. If the requested facilities, in terms of their size, nature, or duration, will not result in saving the client, then there is no blame on the bank if it refuses to grant them."*

Addressing the appellant’s invocation of the Second Gulf War, the Court shifted the judicial focus away from the overarching geopolitical crisis and onto the micro-economic realities of the borrower’s balance sheet and operational intent. The Court validated the lower court’s findings that the company’s financial position had “reached a critical stage,” that real estate guarantees were not practically placed at the bank’s disposal due to valuation disputes, and that the requested facilities were to finance new, unproven projects.

Dispensing with the notion that wartime conditions require banks to act as economic shock absorbers, the Court affirmed the bank’s right to prioritize its institutional stability:

“The bank, like any creditor, has the right to think of its own interest and the interest of its shareholders. ***For it is not a charitable institution*** *… What the bank undertook was to preserve its funds and the funds of its shareholders, and this does not violate or contradict banking customs, public order, or morals.”*

Application to GCC Industries in the 2026 Conflict

The legal precedent set by Judgment 377 of 2006 offers practical, immediate clarity for key industries navigating the current 2026 conflict:

1. **Collateral Negotiations and Historical Leniency:** Companies currently attempting to renegotiate credit terms must consider the 2006 authority that arguing a bank’s demand to “mortgage the real estate first” violated custom, especially during the post-Gulf War downturn. The Supreme Court had rejected this, establishing that past leniency does not legally mandate future unsecured exposure. In 2026, banks may be protected if they demand strict, perfected security interests prior to disbursing wartime liquidity.
2. **Financing Strategic Pivots (Construction & Logistics):**

As supply chains are rerouted and domestic infrastructure projects are potentially delayed by the 2026 conflict, firms may seek capital to pivot toward new ventures. The 2006 appellants similarly requested funds for “financing new projects rather than existing ones.” The judgment explicitly protects banks that refuse to finance such endeavors when a client’s core financial position is already deteriorating. A bank is not legally obligated to fund a corporate pivot if its feasibility is uncertain, and withholding such funds does not constitute an abuse of right.

3. **Macroeconomic Shocks Do Not Absolve Obligations:** A highly resonant lesson of the judgment is its treatment of the “Second Gulf War” defense. Regional instability does not suspend fundamental commercial obligations. The Court upheld the imposition of a 9% delay interest on the company’s outstanding balances, affirming that a debtor’s failure to pay a known sum obligates compensation, regardless of the overarching geopolitical difficulties.

Conclusion

As the 2026 Iran War continues to test the commercial resilience of companies, UAE Supreme Court Judgment No. 377 of 2006 serves as a stabilizing jurisprudential anchor. While the invocation of “difficult economic conditions” caused by regional conflict may frame a compelling plea for financial forbearance, regional courts apply a strict standard of commercial pragmatism. The law recognizes that a bank’s primary duty is the prudential management of capital. In times of severe geopolitical crisis, civil courts will safeguard a financial institution’s right to manage its risk, ensuring that the banking sector is not legally forced to absorb terminal commercial liabilities under the guise of customary support.

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