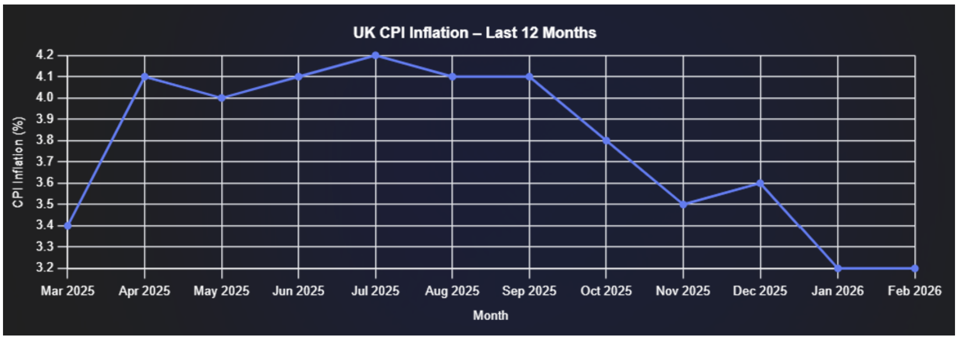
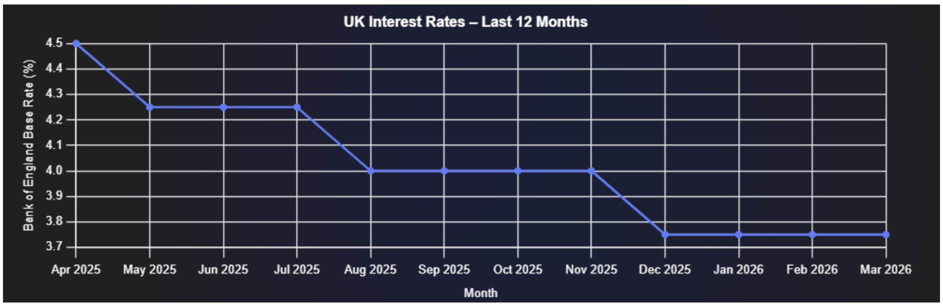
LEGAL & BUSINESS GUIDANCE NOTE

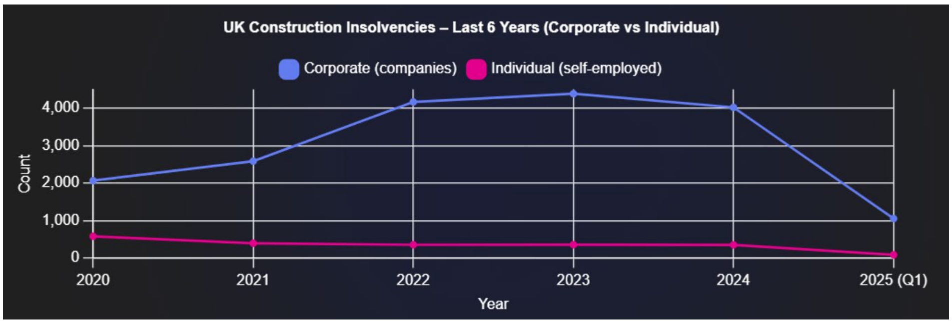
Market Snapshot Analysis Q2 2026

Headlines at the outset of Q2 2026

- Copper ↗ 60%
- Fuel ↗ 50%
- Freight ↗ 50-100%
- UK inflation ➡ 3.2% sticking and rising
- UK interest rates ➡ 3.75% sticking with a potential rise if conflict continues long term
- Due to contracts being fixed price and average contract durations of 12-18 months margins gets squeezed and insolvencies rise the longer the conflict goes on ↗.







ECA wishes to identify and inform the engineering services sector and ECA Members' decisions on what represents 'fair, reasonable and good contractual practice'. ECA remains committed to fair and open competition and this document is not designed to in any way dictate what may be an appropriate risk allocation, or act as a substitute for ECA Members obtaining project and context specific legal advice and making their own commercial decisions.

1. Purpose

To brief senior leaders and stakeholders on the implications of the Middle East conflict for UK construction in 2026, with particular focus on materials, energy, pricing volatility and contractual risk.

2. Summary

The copper crisis pre-dates the middle-east conflict and has been emerging for the last 18 months.

The Middle East conflict is having a material impact on UK construction, not through widespread shortages, but through energy-driven inflation, extreme price volatility and financing pressure. Energy-intensive materials (notably steel and copper), logistics, and fixed-price contracting models are under acute strain. The primary risk for the sector is cost and volatility, rather than availability.

3. Key Impacts

3.1. Copper – Strategic Risk

Materials Most Exposed - The materials most vulnerable to current conditions are:

- **Copper – Strategic Risk -** Copper prices are up c.60% over 18 months, with 39% year-on-year rises (Feb 2026).

  Demand growth is structural, driven by:

  - Electrification and net zero delivery
  - Electric vehicles
  - Renewable energy (wind, solar, grid connections)
  - Power transmission and distribution
  - Data centres and AI-related infrastructure

  Supply constraints include:

  - Major mine disruptions in Chile, Peru and Panama
  - Declining ore grades
  - Long lead times (10–15 years) for new mine development

  This creates a structural copper deficit, making it one of the most strategically sensitive materials for infrastructure planning.

- **Steel** – identified by industry as the single biggest concern due to rapid price movement and quoting difficulties
- Cement and concrete products
- Tiles, Bricks and blocks
- Glass and insulation
- Asphalt and bituminous products

Steel price volatility is the key flashpoint, with contractors struggling to hold prices for any meaningful period.

4. Energy and Oil Markets

Iran accounts for approximately 4% of global oil supply, but around 20% of global oil trade passes through the Strait of Hormuz.

Disruption has driven oil prices up by c.50%, feeding directly into construction costs.

Energy impacts construction at three levels:

a) Manufacturing: cement, steel, bricks, glass, asphalt

b) Transport: petrol up c.10%, diesel up c.20% (road, rail, shipping)

c) On-site operations: plant, machinery and temporary power

BCIS confirms that energy-intensive materials are now experiencing rapid inflation.

5. Shipping and Logistics

Although most UK construction products are sourced **domestically or from Europe**, global shipping disruption is still feeding into UK costs. Impacts:

- Containers are being rerouted around the Cape of Good Hope, increasing transit times.
- Freight rates have risen by 20-100% in some cases beyond the cost of the goods being shipped.
- Construction, as a major user of road and rail, is highly exposed to fuel price increases, affecting:
- Plant hire
- Materials delivery
- Civils and infrastructure projects
- Merchant distribution networks

6. Financing and Market Conditions

Energy-driven inflation is **delaying interest rate cuts**, keeping financing costs higher for longer.

Investor confidence is weakening.

Marginal schemes are increasingly at risk of becoming unviable.

7. What This Means in Practice (2026)

Area	Impact
Tender pricing	Higher risk allowances; shorter quote validity
Fixed-price contracts	Accelerating margin erosion
Steel & energy-intensive materials	Extreme volatility
Logistics	Higher fuel and freight costs
Project viability	Increased pressure on marginal schemes
Programme risk	Longer and less predictable lead times

8. Contractual and Commercial Implications

Force majeure is unlikely to apply in most cases, despite conflict conditions simply because supply is still possible, just more expensive..

There will be an increased contractual focus on:

- Fluctuation and indexation mechanisms – allows for linking price with inflation.
- Hardship and price adjustment clauses – rare but allow for a softer version of force majeure.
- Provisional sums items – some elements of price are based on a 'best guess' and then at completion removed and recharged at actual cost.
- Prime cost (cost-reimbursable) – the works are charged based on actual cost plus a percentage.
- Target cost model – any over or under actual price is shared according to an agreed split.

Contractors are shortening price-hold periods and resisting long fixed-price risk.

9. Outlook

Short-term: sharp cost spikes and volatility, with immediate pressure on live projects and tenders.

Medium-term: continued disruption risks undermining net zero delivery, constraining public spending, and driving further insolvencies.

If prolonged: market hardening, higher long-term inflation and sustained project disruption.

Bottom line: the current challenge for UK construction is not material availability, but managing price volatility, energy exposure and risk allocation in an increasingly unstable geopolitical environment.

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