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The 2026 Iran War and Its Global Impact on Construction Supply Chains

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From Tariffs in the Americas to Conflict in the Middle East

Nearly one year ago, the United States construction industry was grappling with the anticipated impact of 25 percent tariffs on imports from Canada and Mexico as well as tariffs on China. Over the past year, those tariffs have contributed to rising material costs, supply chain adjustments, and increased scrutiny of contractual risk allocation across construction projects. A recent Supreme Court decision invalidating certain tariff authorities has further complicated the landscape, and with replacement measures and ongoing negotiations still unfolding, the future of these tariffs and their impact on construction supply chains remains very much in flux.

Now, almost exactly one year later, a new geopolitical disruption has emerged. On February 28, 2026, the United States and Israel carried out targeted military strikes against Iranian military and nuclear facilities in response to escalating security threats in the region. The resulting conflict has heightened tension in the Persian Gulf and raised concerns about the stability of critical commercial shipping routes, including the [Strait of Hormuz](#), one of the world's most important shipping corridors for oil and industrial commodities such as aluminum, fertilizer, and sugar.

Construction Industry Impact

The construction industry is already reporting impacts as supply chain disruptions increase. Shipping disruptions increase both transportation and production costs, which can cause delays in the delivery of critical materials. In addition, several materials essential to construction, such as cement, steel, concrete, and aluminum, are often [produced or sourced in the Middle East](#), meaning that disruptions to production and transportation in the region may significantly increase costs.

[Major shipping lines](#) have already begun diverting their vessels away from affected routes, while others have temporarily halted services altogether. These changes add both time and expense to the delivery of materials. Shipping companies are expected to impose "[conflict surcharges](#)" to offset the increased risks associated with operating in the region, and those costs will likely be passed through the supply chain. For projects that depend on imported materials or equipment, these delays can disrupt sequencing, extend schedules, and increase exposure to liquidated damages.

Energy markets have reacted sharply to the conflict. [Oil prices surged](#) over the weekend, raising significant concern regarding price volatility and inflationary pressure across global markets. Rising [fuel](#) costs present an additional concern, as higher energy costs affect both material transportation and the production of energy-intensive inputs.

At the same time, supply chain disruptions create new logistical challenges. As delivery timelines become less predictable, contractors and suppliers may be forced to secure temporary staging to store materials that arrive earlier than needed or must be held until transportation routes reopen. These additional storage, handling, and insurance costs can further increase project expenses and complicate project planning. Together, shipping disruptions, storage constraints, and fuel price volatility will likely quickly translate into higher costs and delays across global construction markets.

Review Contracts Amid Material Price Escalation and Supply Chain Volatility

The fast-paced and sudden developments that have materialized over the past weeks highlight the need for a thorough review of construction contracts, particularly how they allocate the risks of material price escalation and supply chain disruption.

Force majeure provisions in construction contracts warrant particular attention, as many list "war" as a force majeure event that may excuse delays in performance. However, parties should review the specific language of those provisions carefully. In situations such as the current conflict, where the President has ordered military action but Congress has not issued a [formal declaration of war](#), questions may arise as to whether the conflict with Iran technically qualifies as "war" under the contract. At the same time, many construction contracts include broader "catch-all" language that may still provide relief. For example, provisions such as those found in AIA contracts permit extensions of time for delays caused by events beyond the contractor's control or other circumstances that justify delay. Depending on the contract language, these provisions may apply even if the force majeure clause does not specifically reference war. As a result, the applicability of a force majeure clause in these circumstances may become a dispute.

As parties enter new contract negotiations, suppliers, subcontractors, general contractors, and owners should consider whether their agreements should incorporate more robust contractual measures that address geopolitical instability. Relevant provisions would include:

- cost increases tied to fuel, freight, or raw materials;
- delays arising from shipping interruptions or material shortages;
- change order procedures for unanticipated supply chain impacts; and
- force majeure provisions that may encompass war, sanctions, or transportation disturbances.

War brings inherent uncertainty, and there is no reliable prediction of when the current conflict will end, as expert assessments and predictions vary widely. [Some analysts](#) warn that the economic effects of this conflict may take longer to stabilize than those associated with prior geopolitical crises. What is certain is that, despite turmoil occurring thousands of miles away, conflict disrupts construction supply chains. Coupled with the uncertainty of the tariffs, it is vital that contracts clearly address both cost escalation and schedule delays.

The Trusted Advisors in [Baker Donelson's industry-leading Construction Practice](#) can assist you in formulating and negotiating protections to fit your unique circumstances. Our Construction Group, along with our [International Trade and National Security Group](#), will continue to monitor developments and provide updates as warranted. If you have any questions or would like to discuss this in further detail, please reach out to the [Maia Fleischman](#) or a member of these groups.