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**Navigating supply chain challenges in
Saudi Arabia's construction industry**

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Navigating supply chain challenges in Saudi Arabia's construction industry

Thomas O'Brien, Kami Zargar, Niall Clancy and Beau McLaren

FTI Consulting

Simmons & Simmons LLP

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The construction industry in Saudi Arabia is undergoing extensive transformation, with multibillion-dollar mega-projects being planned – stretching the supply chain to its limits.

This article examines some of the challenges facing global logistics and supply chains and considers how these might be managed or mitigated when seeking to operate in Saudi Arabia.

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- Supply chain dynamics
 - Impact of interconnectivity of global market on Saudi projects
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REFERENCED IN THIS ARTICLE

- Saudi Vision 2030
- FIDIC Red Book
- Civil Transactions Law

INTRODUCTION

It is no secret that the construction industry in Saudi Arabia is currently being transformed. Massive investment and development – driven in large part by the Saudi Vision 2030 programme, a government-led initiative to diversify the Saudi economy – has led to an unprecedented construction boom, fuelling a dramatic increase in demand for materials, supplies and manpower.

The sheer scale is staggering: more than US\$850 billion-worth of mega-projects are planned. Around US\$44 billion of these were awarded in the first half of 2023 alone, accounting for nearly 44 per cent of all projects awarded across the entire Middle East and North Africa region in that period.^[1]

This surge in investment directly translates into complex supply chain dynamics, as the demand for materials and labour intensifies in proportion to the ambitious scope of projects. Specifically, the influx of US\$850 billion into the construction industry has significant ripple effects: it stretches the supply chain to its limits, with challenges that include sourcing materials and managing an international workforce.

Each of these mega-projects represents a major undertaking for supply chains that together present unprecedented challenges for supply chains on a global scale. Saudi Arabia's development drive touches every corner of the country's economy and culture. The projects span a range of residential, healthcare, educational, commercial and cultural initiatives and require investment in energy, infrastructure, transport and manufacturing projects across Saudi Arabia.

The size, number, bullish programming and – in particular – concurrency of these projects, therefore, present unique challenges for supply chains around the world. This is particularly testing for nations that are still recovering from the impacts of the covid-19 pandemic and that are having to adapt to more recent global disruptive factors (eg, logistics breakdowns caused by global unrest or the blockage of the Suez Canal in 2021).

This article examines some of the challenges facing global logistics and supply chains and considers how these might be managed or mitigated when seeking to operate in Saudi Arabia.

BACKBONE OF CONSTRUCTION: SUPPLY CHAIN DYNAMICS

In the context of construction, the term 'supply chain' refers to the interconnected network of processes and activities involved in sourcing materials, managing logistics, deploying labour and integrating technology to facilitate the construction of buildings, infrastructure and other physical assets. It encompasses the flow of goods, services, information and finances from the initial procurement of raw materials, finalised products and human capital to the final delivery of the completed project.

Common key components of any supply chain include:

- **Sourcing of materials:** this involves identifying, procuring and managing the raw materials, components and equipment necessary for construction projects. It includes sourcing locally available materials and importing specialised materials when required.
- **Logistics:** logistics within the construction supply chain involves the coordination of transportation, storage and distribution of materials and equipment to or on construction sites. Effective logistics management ensures timely delivery of materials and equipment to site to avoid delays, while minimising costs and disruptions.
- **Labour:** labour encompasses both skilled and unskilled workers involved in various stages of the construction process. This includes architects, engineers, contractors, subcontractors and construction workers, all of whom contribute their expertise and activity to complete the project.
- **Technology:** technology plays an increasingly vital role in optimising the construction supply chain. This includes tools and software for project management, scheduling, design, building information modelling (BIM), internet of things (IoT) devices for real-time monitoring of construction activities and automation technologies to enhance efficiency and productivity.

Each of these components is essential to the completion of projects in an efficient and timely manner and, importantly, within budget. Delays or failures at any stage of the supply chain can have serious onward consequences, resulting in disruption and hold-ups, changes owing to mitigation efforts and significant cost overruns: if the manpower and materials are not available to progress the project in accordance with its programme, the project will suffer and the consequences can be severe.

IMPACT OF INTERCONNECTIVITY OF GLOBAL MARKET ON SAUDI PROJECTS

The construction industry in Saudi Arabia, like many other countries, is heavily influenced by the interconnectivity of the global market. Several factors contribute to this interconnectivity and its particular impact on Saudi projects:

- **Global sourcing:** historically, Saudi Arabia's in-country manufacturing capabilities have been comparatively underdeveloped; however, this is changing, and the 'onshoring' of these capabilities is a key – and welcome – initiative of the Saudi government. In the interim, however, Saudi construction projects continue to rely heavily on imported materials, equipment, manpower and technology from other countries. Fluctuations in global markets, supply and demand, trade policies and geopolitical events can affect the availability, cost and lead times of these imported goods, impacting project timelines and budgets. This is further magnified by the sheer volume of work being executed concurrently in Saudi in alignment with Vision 2030. With multiple projects competing for the same limited pool of resources, shortages, price increases and delays become increasingly likely.
- **Supply chain disruptions:** disruptions in the global supply chain (eg, natural disasters, economic crises and pandemics) can have ripple effects on construction projects in Saudi Arabia. Delays in the delivery of materials or equipment shortages owing to disruptions elsewhere in the world can stall construction activities and increase project costs.
- **Technology transfer:** the interconnected nature of the global market facilitates the transfer of construction technologies and best practices to Saudi projects. Collaboration with international partners and the adoption of cutting-edge technologies can enhance the efficiency, quality and sustainability of construction projects in Saudi Arabia. Saudi Arabia has made an increased effort to make itself more attractive to large international companies, particularly in the engineering, procurement and construction industries.
- **Market competition:** globalisation increases competition in the construction industry, with companies around the world vying for projects in Saudi Arabia. This can lead to greater innovation, improved quality and cost-effective solutions for Saudi construction projects, but it also requires local firms to adapt and compete on a global scale.

The construction supply chain in Saudi Arabia is, therefore, intricately linked to the global market – perhaps more than other jurisdictions – with sourcing of materials, logistics, labour and technology being key components and required for the success of a very challenging construction market.

CURRENT SUPPLY CHAIN CHALLENGES IN SAUDI ARABIA

The Vision 2030 initiative was announced almost eight years ago, in April 2016.^[2] Since then, like other countries, Saudi Arabia has faced several supply chain challenges. These have primarily been driven by global events, disruptions in transportation routes and geopolitical tensions, many of which continue to have an impact in 2024. These challenges have had significant implications for material shortages, transportation logistics and the import and export of essential construction materials

Global Events

Global events such as the covid-19 pandemic, trade disputes and natural disasters have disrupted the global supply chain, leading to materials shortages in Saudi Arabia and delays to the commencement or completion of projects across the country. Restrictions on international trade, factory closures and disruptions in transportation have likewise resulted in delays and shortages of critical construction materials, affecting project timelines and costs.

Disruptions In The Red Sea

Recent disruptions in the Red Sea,^[3] a crucial maritime route for shipping goods to and from Saudi Arabia, have posed challenges to transportation logistics and material prices. Events such as piracy, conflicts or accidents in the region can disrupt and have disrupted shipping lanes – leading to delays, increased transportation costs and potential shortages of construction materials.

Geopolitical Tensions

Geopolitical tensions in the Middle East and beyond have implications for material imports and exports to and from Saudi Arabia. Trade restrictions, sanctions and political conflicts can disrupt supply chains, restrict access to certain markets and increase the cost of importing or exporting materials. Fluctuations in diplomatic relations between Saudi Arabia and other countries can further complicate trade negotiations and logistics.

Internal And External Market Competition

The Vision 2030 initiative is not proceeding in a vacuum: it comprises multiple projects and other initiatives. At a basic level, a key challenge for the Saudi market is demand exceeding supply. Aside from global demands for resources, several of Saudi Arabia's regional neighbours are engaged in their own development initiatives. For example, the United Arab Emirates, Oman and Qatar have implemented their own 'vision' programmes,^[4] with significant ongoing and planned investment and development. These place competing demands on the supply chain and the availability of materials and manpower.

This challenge is mirrored to some extent within Saudi Arabia, where multiple projects are concurrently competing for the same resources. In the short term, this can lead to increased costs, as higher prices are paid to secure resources, and to delays in sourcing materials or staff. In the longer term, there is a significant risk that these resources are simply not available at any price.

Legal And Regulatory Considerations

Various legal and regulatory requirements are of particular relevance in Saudi Arabia. Given the country's heavy dependence on imports, compliance with customs and imports requirements is essential. Delays can (and frequently do) occur, particularly where care has not been taken in completing required customs documents and formalities. The sheer volume of materials being imported into Saudi Arabia increases the risks of delays or bottlenecks, which can, in turn, impact project progress.

Another area where local laws and regulations can bite is in the employment of qualified staff. A key and commendable focus of Saudi Arabia's development plans is the creation and training of an effective and skilled local workforce. This focus has manifested itself in nationalisation programmes^[5] – requirements for companies to hire Saudi locals over

foreign nationals and to maintain certain levels of local staff – and encouraging businesses to employ and train Saudi nationals in their industries.

Upskilling a workforce is not a quick process. In the interim, the likely consequences of these initiatives from a resourcing perspective are:

- a limited pool of national staff and workers available to meet the immediate staffing needs in certain roles;
- competition for available local staff, increasing local cost bases and project budgets;
- increased frequency of staff turnover, leading to wasted costs, loss of internal know-how and potential issues with nationalisation quotas; and
- inability to hire required staff internationally as a result of mandatory nationalisation quotas and a consequent delay in getting sufficient resources on the ground to staff projects properly and efficiently.

Addressing Supply Chain Challenges

These supply chain challenges underscore the importance of diversifying supply sources, strengthening transportation infrastructure and implementing contingency plans to mitigate risks and ensure the resilience of the construction industry in Saudi Arabia. Collaboration between government agencies, private sector stakeholders and international partners is essential to address these challenges and maintain the smooth flow of labour, materials and goods for construction projects in Saudi Arabia. Additionally, investing in local manufacturing capabilities and promoting sustainable practices can enhance self-sufficiency and reduce dependence on volatile international supply chains.

RISK MANAGEMENT AND MITIGATION STRATEGIES

Mitigating Supply Chain Risks

Given the scale of projects under way in Saudi Arabia and the wider region, these supply chain challenges are unlikely to be resolved in the short to medium term. In the interim, there are various steps that parties can take to mitigate supply chain risks and minimise the impact of supply chain failures.

Robust Planning And Coordination

Proper planning and coordination are the most effective means of managing complex supply chains in large-scale construction projects. This includes detailed forecasting, procurement planning and scheduling to anticipate demand, optimise inventory levels and minimise lead times. Using advanced project management tools and technologies (eg, BIM and ERP systems) facilitates real-time monitoring and coordination of supply chain activities, allowing problems to be anticipated and addressed quickly and effectively.

Implementing Adequate Risk Management

Inadequate risk management practices contribute to supply chain failures and delays in Saudi construction projects. Failure to anticipate and mitigate potential risks, such as geopolitical tensions, natural disasters or regulatory changes, leaves projects vulnerable to unforeseen disruptions. Robust risk management strategies, contingency plans and scenario analyses help safeguard supply chains against uncertainties.

Diversification Of Suppliers And Sourcing

Over-reliance on a single supplier, sourcing channel or country increases vulnerability to supply chain disruptions, and the Saudi construction industry is no exception to this. Supply chain failures, such as factory closures, transportation bottlenecks or quality issues, can significantly impact project timelines and costs; therefore, diversifying suppliers and establishing backup options is essential to mitigate risks of supply chain disruptions and enhances flexibility in large-scale construction projects.

Saudi projects that successfully leverage a diverse network of local and international suppliers may be better placed to adapt to and minimise the impact of global events, geopolitical tensions and transportation disruptions on material availability and pricing. Where sources of materials are limited (eg, in the case of specialised materials or equipment) contingency plans should be put in place to minimise risk. Delays owing to supply chain disruption can be averted by advance ordering (as opposed to 'just-in-time' delivery models), arranging storage facilities for pre-ordered materials, and building in additional float in project programmes.

Strategic Partnerships

Poor communication and collaboration among stakeholders can lead to coordination failures and inefficiencies in supply chain management. Lack of transparency, misalignment of objectives and delays in decision-making exacerbate challenges in large-scale construction projects. Establishing clear communication channels, fostering collaboration and promoting information-sharing among project participants are essential for overcoming supply chain obstacles.

Successful supply chain management in large-scale Saudi construction projects, therefore, often involves forming strategic partnerships with reliable suppliers, contractors and logistics providers. Building strong relationships with suppliers can lead to better service levels, more favourable terms and improved collaboration during times of supply chain stress. By engaging in supplier relationship management (SRM), companies can work more closely with their suppliers to ensure a mutual understanding of project needs and expectations. This can include regular performance reviews, joint planning sessions and the development of shared risk mitigation strategies.

Enhanced SRM can also lead to innovation and continuous improvement in supply chain processes, as suppliers are more likely to invest in understanding the business and tailor their services accordingly. NEOM Green Hydrogen Company is one example. This joint venture was created when three market innovators – ACWA Power, Air Products and NEOM – came together with a shared mission to lead the world in its transition to a carbon-free future. Each partner brought specialist expertise that helped foster collaboration, transparency and mutual trust, ensuring a smooth flow of materials and resources throughout the project life cycle.

Investment In Infrastructure And Technology

Outdated transportation networks, inadequate warehousing facilities and manual processes impede the efficient movement of materials and resources. Conversely, embracing digitalisation, automation and innovation in supply chain management enhances agility, visibility and efficiency, reducing the risk of delays and disruptions. Investment in transportation infrastructure, warehousing facilities and technology-driven solutions enhances the efficiency and resilience of supply chains in large-scale construction projects.

Simply, adopting advanced logistics technologies (eg, radio-frequency identification tracking, GPS monitoring and automated material handling systems) streamlines operations, improves visibility, and reduces costs.

Audit Rights

Agreeing and exercising contractual audit rights in supplier contracts is a means of gaining visibility and comfort over suppliers' compliance with their contractual obligations. This can give increased transparency and assurance over costs and relevant billing arrangements, especially where there is an increased level of complexity owing to pricing arrangements, such as rebates, discounts or subcontractor markups. Executing such rights not only enables recovery of cash and future cost savings, but also demonstrates good practice in project governance and identifies opportunities for improvements in procurement.

Contract Negotiation

These practical steps should, where possible, be complemented by robust legal and contractual protections. It is recommended – if not essential – to have comprehensive plans and procedures in place to manage the supply chain; however, given the scale of construction under way in Saudi Arabia, it is inevitable that some projects will run into supply chain difficulties that impact the likelihood of the project being completed on time and in budget.

In those instances, the parties best placed to deal with these issues are likely to be those with clear and comprehensive contract terms, precisely setting out the parties' respective rights, obligations and protections in the event of supply chain issues. Importantly, these terms should be agreed at the outset: rarely will a party be able to amend the contract risk allocation after supply chain disruption has occurred.

It is common for contracting parties in the Middle East to use one of the contracts of the International Federation of Consulting Engineers (FIDIC) as a basis for their agreements, such as the second edition of the FIDIC Conditions of Contract for Construction (the Red Book). Using the Red Book as a guide, parties should consider the following issues when negotiating their contracts.

Clear Allocation Of Responsibility

Parties should clearly allocate responsibility for provision of materials, equipment and manpower. These will usually be the responsibility of the contractor.^[6] The contractor should build into its programme sufficient time for material delivery and ensure that it is familiar and can comply with all applicable customs and labour laws (eg, nationalisation policies). Where materials or other resources are to be supplied by the employer, the contract should clearly set out the consequences – and relief available to the contractor, if any – in the event the employer is delayed in the performance of these obligations.

Price Escalation And Additional Compensation

Given the febrile procurement market – particularly for in-demand materials such as steel or concrete – parties should consider building into their contracts provisions for price escalation and additional compensation should material prices rise after contract execution. This is to protect the contractor in the event prices increase to such an extent that the project cannot be completed at the accepted contract price.

Employers may also wish to consider offering a larger advance payment – usually made to cover the contractor's initial expenses, such as mobilisation costs – to enable to the

contractor to 'lock in' material orders at lower costs and allow early ordering of long-lead or specialised items that might otherwise be at risk of delay. Where the contract does not provide for price escalation, Clause 13.7 of the Red Book provides that 'the Accepted Contract Amount shall be deemed to have included amounts to cover the contingency of other rises and falls in costs'.

Extensions Of Time

Parties should carefully consider the circumstances in which they will be entitled to extensions of time. Relief is often limited to the occurrence of 'unforeseeable' events and specific circumstances, such as epidemics or government actions.^[7] These provisions are unlikely to cover all risks to the supply chain. Where possible, these provisions should be comprehensive and account for factors outside the parties' control.

In the context of the Red Book and similar conditions, the parties should consider whether supply chain disruptions are unforeseeable to a degree that entitles the contractor to relief. Parties should bear in mind that, where the same or similar events have occurred previously, it is increasingly difficult to argue that they are unforeseeable if they recur. Likewise, in the context of delays caused by authorities,^[8] such as customs entities, parties should consider whether delays in the release of materials are truly unforeseeable and adjust their contracts accordingly.

Exceptional Events

The Red Book and similar contracts provide for relief for 'exceptional events',^[9] which is equivalent to the concept of force majeure. These provisions tend to provide for relief in wider circumstances than those under Clause 8.5 and cover events such as war and hostilities, natural catastrophes and generalised industrial action. Exceptional events under the Red Book are events or circumstances that:

- are beyond a party's control;
- could not reasonably have been provided against before entering into the contract;
- having arisen, could not reasonably have been avoided or overcome; and
- are not substantially attributable to the other party.

While Clause 18 of the Red Book and similar provisions may appear to come to the aid of a contractor facing supply chain delay, in practice there is likely to be disagreement over whether 'normal' supply chain challenges and delays are truly outside a contractor's control or could not have been provided against in advance. A contractor has an obligation to exercise 'all reasonable endeavours to minimise any delay' arising from exceptional events,-^[10] which may in some circumstances extend to contractors paying inflated prices for necessary materials.

Changes In Law

Given the rapidly evolving legal landscape in Saudi Arabia, parties should ensure that their contracts deal with the consequences of changes in law. During the covid-19 pandemic, for example, many governments imposed restrictions on working hours and movement of labour through new laws. These mandatory changes to working practices caused significant delays to projects that were unable to have full staff and labour on site.

Clause 13.6 of the Red Book provides for relief in the event of changes in law, subject to compliance with contract notice requirements. Parties operating in Saudi Arabia should be aware of the drive by the government to modernise its laws and regulations, and ensure their contracts provide for changes in the legislative landscape.

Step-in Rights

Employers may wish to include step-in rights that allow them to intervene in the supply chain process if the contractor is unable to manage supply chain issues effectively. This can include the right to engage directly with subcontractors or suppliers to ensure project continuity.

Regular Reporting And Audits

Contractual obligations for regular reporting on the status of the supply chain and the right to conduct audits can provide early warning signs of potential disruptions and allow for corrective actions to be taken in a timely manner.

Insurance Coverage

Ensuring that appropriate insurance coverage is in place for supply chain risks can provide financial protection against losses arising from disruptions. Supply chain disruptions may not be sufficiently covered under traditional insurance policies such as property or general liability insurance.

Notice

Parties should familiarise themselves with their contractual notice requirements, as compliance with these is usually a prerequisite for obtaining contractual relief. For events with an ongoing effect, such as the covid-19 pandemic, the party seeking relief will have an ongoing duty to provide further details of its claims on a rolling basis. Failure to satisfy this obligation could lead to otherwise legitimate claims for relief being denied.

Dispute Resolution

Parties should ensure that they include robust and suitable dispute resolution provisions in their agreements. While the use of dispute adjudication boards (DABs) is less common in the Middle East than elsewhere, early resolution of claims or delays through standing DABs can be particularly useful for supply chain issues. Establishing a DAB or formal escalation process within the contract can ensure that supply chain issues are addressed promptly and by the appropriate level of management, which can be crucial in preventing or minimising project delays. In short, rather than waiting until the end of a project to know their entitlements, parties should have supply chain issues determined quickly and contemporaneously, enabling them to adapt to the circumstances.

Civil Transactions Law

A clear and comprehensive contract is therefore one of the best ways to manage and provide for the impacts of supply chain challenges, ensuring the parties' respective rights and obligations are clear. Where the contract is silent on these issues, however, Saudi law will also provide relief in certain circumstances.

In June 2023, Saudi Arabia announced its new Civil Transactions Law by way of Royal Decree No. M/191 (the Code).^[11] The Code came into force in December 2023 and effectively represents the first codification of the laws relating to contract and tort in Saudi Arabia.^[12]

As a general rule under the Code, parties are expected to perform their obligations and will be held to those obligations; however, the following exceptions are relevant in the context of supply chain difficulties.

Performance 'in Kind'

Article 164(1) allows for a party to be required to perform its obligation 'in kind'. In a supply chain context, this may allow employers to require contractors to use alternative materials or construction methods where performance is prevented owing to supply chain problems.

Impossibility Of Performance

Article 110(1) provides relief where performance of the contract has become impossible for reasons outside the responsible party's control. In these circumstances, the contract will be 'automatically terminated'. Article 294 of the Code provides similar relief.

This is unlikely to be a preferred option for most parties in long-term contractual relationships, where performance of the contract overall ultimately remains both possible and desirable. Accordingly, article 110(2) of the Code provides for relief in the event of 'temporary impossibilities in time-based contracts'. In those circumstances, a court or tribunal may relieve the affected party of its obligation. Critically, however, the obligation must be impossible to perform, not simply more onerous.

Exceptional Circumstances

Article 97(1) of the Code provides relief for 'general exceptional circumstances', which is similar to the concept of force majeure. It provides:

In case of extraordinary events which were unforeseeable at the time of contracting and which make the fulfilment of a contractual obligation excessively onerous on the part of the debtor in such a way that it may cause heavy losses, the debtor may, without undue delay, invite the other party to negotiate.

Article 97(3) provides that, where negotiation fails to result in an agreement within a reasonable period, a court or tribunal may reduce the obligation 'to a reasonable level'. These provisions may provide relief for a contractor facing delays owing to supply chain issues; however, this relief will not be available in all circumstances, in particular:

- there must be 'general exceptional circumstances' (ie, not just circumstances impacting the contractor). For example, the impacts of a global pandemic would likely satisfy this requirement, whereas issues limited to the contractor's own supply chain likely would not;
- the circumstances must have been unforeseeable at the time of contract; therefore, much like under the Red Book, normal supply chain disruptions or price fluctuations owing to usual market factors are unlikely to be unforeseeable; and
- the circumstances must make performance 'excessively onerous', causing 'heavy loss'. The Code is silent on what these terms might mean, and much will likely depend on the facts. Nevertheless, minor cost increases owing to supply chain disruption would likely not satisfy these requirements.

Invalidity Of Calculations

Article 471(3) of the Code allows a court or tribunal to amend the parties' contract where 'the basis upon which the estimate [i.e. the financial basis for the tendered and accepted contract price] was determined becomes no longer valid'. In this case, the powers available to the court or tribunal include 'restoration of the contractual balance, including extending the execution period or increasing or decreasing the fees, or . . . termination of the contract'.

This relief is not available in all circumstances. As with article 97(3), the events leading to the undermining of the basis of the contract price must be of a general nature (ie, not simply affecting the party whose performance is affected), be exceptional or not have been foreseeable at the time of contract. As such, the application of article 471(3) to typical supply chain challenges is likely to be limited.

Proportional Reduction Of Relief

Where a contractor is able to demonstrate an entitlement to relief under the Code, it must bear in mind its general duty to mitigate delays and the potential consequences of failing to do so. Articles 128 and 172 of the Code together provide for a party's entitlement to relief to be reduced in proportion with its contribution to the harm suffered. Accordingly, a contractor seeking relief for supply chain delays may find its entitlements reduced to the extent that its failure to plan properly led to or contributed to the delays. Similarly, a contractor that has failed to mitigate the impacts of the delays (eg, by seeking alternative supply routes) and thereby exacerbated the delay may find itself responsible for some of the delay to the project, notwithstanding the issues being caused by third parties in the supply chain.

Evidence

In addition to detailing mitigation efforts, the contractor must articulate the financial impact of the delays on the business, supported by contemporaneous evidence. Formulating the relief often requires the contractor to keep relevant records and retain supporting evidence for all impacted activities. These include records of interactions with the third party, existing budgets and forecasts, key management decisions, and evidence supporting actual or expected performance and additional costs incurred or saved as a result of the delays. The contractor should demonstrate the precise direct or indirect impact of the disruptions on the business and the relevant period thereof. This includes a consideration of any other factors affecting the business which may impact on its historical and potential financial performance.

Planning From The Outset

The Code should therefore not be seen as a panacea. Claims for relief under its provisions are likely to be heard at the end of a project, when the parties are in dispute, rather than during the contract term. Parties would be far better served by having proper planning and procedures in place at the outset, coupled with a comprehensive contract, allowing supply chain issues to be addressed quickly and efficiently.

FUTURE OF SUPPLY CHAINS IN SAUDI CONSTRUCTION

The future for Saudi construction supply chains is not without its challenges; however, the unique circumstances in Saudi Arabia also present significant opportunities to change the way supply chains function, potentially leading by example for the wider regional construction market.

To meet the demand in Saudi Arabia, successful supply chains are likely to be those that embrace some or all of the following features.

Localisation And Economic Diversification

Vision 2030 emphasises localisation of industries and the development of local manufacturing capabilities to reduce reliance on imports and create job opportunities for Saudi nationals. This localisation strategy will impact supply chain strategies by encouraging the sourcing of materials and equipment from local suppliers and promoting the development of domestic logistics and transportation infrastructure. It will also reduce risks of delays and disruption caused by global factors.

Efforts on this front are already under way: the King Salman Energy Park project is an industrial city being built in Saudi Arabia's Eastern Province.^[13] Its focus is, in part, to localise the global energy supply chain, particularly in relation to supplies for Saudi Aramco, leading to significantly shorter supply chains in the energy sector.

Similarly, Lucid, a manufacturer of electric vehicles, announced plans to move manufacturing to Saudi Arabia, departing from a traditional import model.^[14] We are likely to see more of these initiatives as we move towards 2030.

Investment In Infrastructure

Vision 2030 includes ambitious infrastructure development projects, such as NEOM, the Red Sea Project and Qiddiya,^[15] aimed at enhancing Saudi Arabia's economic competitiveness and quality of life. These mega-projects will require robust supply chains to support the delivery of materials, equipment and labour in a timely manner. These will require significant development in infrastructure to improve transportation networks, warehousing facilities and digital infrastructure, enabling more efficient and resilient supply chains in the construction industry.

Digital Transformation And Innovation

Vision 2030 emphasises the importance of digital transformation and innovation in driving economic growth and competitiveness. In the construction industry, this translates to the adoption of advanced technologies such as BIM, drones, IoT sensors and digital twins to optimise supply chain processes, improve productivity and enhance collaboration among project stakeholders. Government support for research and development initiatives will spur innovation in supply chain management and logistics.

Regulatory And Legal Reforms And Business Environment

Vision 2030 includes regulatory reforms aimed at improving the business environment, enhancing transparency and attracting foreign investment. These reforms will streamline permitting processes, facilitate trade and provide incentives for private sector participation in infrastructure projects. A more favourable business environment will encourage the development of efficient and competitive supply chains in the construction industry.

Significant steps have already been taken in this regard. The new Civil Code offers increased certainty and predictability for commercial operations in Saudi Arabia and is fundamental to attracting inward investment and creating a stable economic platform for local and international businesses. It follows the introduction of Saudi Arabia's modern Arbitration Law, which provides greater certainty and comfort for parties operating in Saudi Arabia and is expected to be complemented by a new and modern commercial code in the near future.

Increased Focus On Collaboration A Partnerships

From a contractual perspective, the competition for resources in Saudi Arabia is likely to result in a softening of negotiating positions, with an increased focus on fairness, flexibility and collaboration amongst contracting parties. Partnerships with trusted suppliers are likely to increase, possibly with more sharing of both project risks and project gains. Strategic government investment in key industry players is likely to continue, promoting greater collaboration and avoiding disputes.

Sustainability And Environmental Considerations

Vision 2030 underscores the importance of sustainability and environmental conservation in achieving long-term prosperity. In the construction industry, this means incorporating sustainable practices and green building principles into supply chain strategies. Government initiatives to promote renewable energy, resource efficiency and waste management will drive the adoption of sustainable materials, construction methods and logistics practices in Saudi construction projects.

CONCLUSION

With the sheer volume of work and ambitious time frames for resource-heavy projects, there is a tremendous strain on supply chains in Saudi Arabia; however, forward-looking government initiatives such as Vision 2030 offer opportunities to ease that strain by promoting localisation, investment in infrastructure, digital transformation, regulatory and legal reforms and sustainability.

By aligning supply chain strategies with the objectives of Vision 2030, the construction industry in Saudi Arabia can enhance its competitiveness, resilience and contribution to the country's economic growth and diversification goals.

Endnotes

- 1 [‘Middle East countries showed a strong construction growth in H1 2023, report says’](#), Technical Review Middle East (13 Dec 2023). [^ Back to section](#)
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- 6 See, eg, International Federation of Consulting Engineers' Conditions of Contract for Construction (Red Book), Clauses 4.16 and 6.1. [^ Back to section](#)
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- 8 Red Book, Clause 8.6. [^ Back to section](#)
- 9 Red Book, Clause 18. [^ Back to section](#)
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Thomas O'Brien
Kami Zargar

thomas.obrien@fticonsulting.com
 kami.zargar@fticonsulting.com

200 Aldersgate, Aldersgate Street, London EC1A 4HD, United Kingdom

Tel: +44 20 3727 1000

<https://www.fticonsulting.com/>

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Niall Clancy
Beau McLaren

niall.clancy@simmons-simmons.com
beau.mclaren@simmons-simmons.com

CityPoint, 1 Ropemaker St, London EC2Y 9SS, United Kingdom

<https://www.simmons-simmons.com/>

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