

# Plant Construction Projects in the Gulf Region in Light of the Iran Conflict: Legal and Tax Implications



The armed conflict in the Gulf region since 28 February 2026 has transformed one of the world's most significant infrastructure markets into a high-risk operational and legal environment. Iran's attacks on all six Gulf Cooperation Council states have disrupted supply chains, halted shipping through the Strait of Hormuz, shuttered the Port of Jebel Ali and grounded air freight across the region. For German companies executing plant construction and EPC projects in the Gulf, the conflict raises pressing questions across contract law, tax, employment and finance. This briefing provides a structured overview of the key legal and fiscal implications.

## 1. Force Majeure, FIDIC Contracts and Supply Chain Disruptions

Plant construction projects in the Gulf region are predominantly governed by the FIDIC contract suite, with the Yellow Book and Silver Book as the established market standard. FIDIC 2017 Clause 18 and FIDIC 1999 Clause 19 provide force majeure relief in cases of extraordinary events outside a party's control that could not reasonably have been anticipated at the time of contracting – expressly including acts of war and hostilities. The current conflict satisfies these criteria in principle. However, relief is conditional on strict procedural compliance: Clause 18.2 FIDIC 2017 requires prompt notification, typically within 14 days of the event, a period frequently shortened to seven or even five days under the particular conditions used by Gulf state public authorities. Failure to notify within the prescribed period may result in the complete loss of force

majeure entitlements, even where the underlying event is beyond dispute.

The consequences of a valid force majeure notification depend on the specific contractual structure. Contractors will typically be entitled to an extension of time (“EOT”), while cost recovery is considerably more dependent on the particular conditions of the individual contract. Under the FIDIC Silver Book, the contractor bears the risk for delivery delays unless attributable to a force majeure event; establishing the causal link between the conflict and the specific disruption is the critical – and frequently contested – evidentiary issue. Standard Construction All Risks (CAR) and Erection All Risks (EAR) policies typically exclude war-related damage, and war risk coverage has become significantly more expensive or is no longer available in the insurance market. Contractors should maintain contemporaneous records from the outset: supplier and freight communications, port clo-

sure notifications, insurance correspondence, and internal mitigation records are of decisive value in subsequent dispute proceedings.

## **2. Tax Risks: Permanent Establishments and Withholding Tax**

The conflict creates significant and often underappreciated tax exposure for German companies with ongoing Gulf projects. Involuntary interruptions – including those caused by force majeure – are generally included in the calculation of the relevant minimum duration threshold for construction and assembly permanent establishments (“PE”). A project originally planned to fall below the applicable threshold may, as a result of conflict-related delays, now exceed it and trigger local tax registration and profit attribution obligations. Germany currently has an effective double taxation agreement (“DTA”) only with Kuwait among the Gulf states, providing a nine-month PE threshold for construction and assembly operations. For the UAE, the Germany-UAE DTA lapsed on 31 December 2021 and has not been renewed; only domestic UAE tax law applies.

A structurally distinct PE risk arises from crisis-driven operational restructuring. Companies establishing regional coordination hubs, consolidating machinery in third states of the region, or relocating project management functions may inadvertently satisfy the factual criteria for a PE in the host state. The auxiliary activities exemption – protecting pure warehousing and logistics functions – is typically

lost once a location simultaneously performs coordination or commercially substantive functions, a constellation that commonly arises at crisis-driven contingency hubs. “Work from anywhere” arrangements for posted personnel create a further exposure: where employees temporarily relocate to third countries and continue performing substantive management functions on behalf of the German parent, there is a material risk of triggering a PE in the employee’s host state. Withholding tax obligations on conflict-related compensation payments, insurance proceeds and contractual adjustments also require individual assessment.

## **3. Posted Employees: Duty of Care, Evacuation and Remote Work**

The conflict has brought the duty of care owed by German employers to their posted employees sharply into focus. Under Section 618 of the German Civil Code and applicable occupational safety legislation, the employer is required to actively protect employees’ physical integrity – an obligation extending to posted staff in foreign locations and, regularly, to their accompanying family members. Where a posted employee requests repatriation and viable exit options exist, the employer is generally obliged to actively support the departure, including by arranging flights via alternative routing, providing interim accommodation and releasing the employee from the obligation to perform work during evacuation. Employers who delay or refuse

such support expose themselves to significant liability.

For employees remaining in the region, work-from-home arrangements are in principle permissible, provided adequate working conditions and secure communications infrastructure are maintained. Under UAE law, MoHRE issued an extraordinary remote work mandate on 1 March 2026 under Article 17(2) of the UAE Labour Law, constituting a binding administrative order; employers requiring office attendance while this mandate remains in force face fines of up to AED 50,000 per incident. Remote work arrangements involving employees operating temporarily from Germany may give rise to German wage tax liability for the corresponding periods. Local employees are entitled to continued remuneration during any crisis-related operational standstill under applicable local labour law; they do not have a right to relocation support.

#### 4. Payment Security, Dispute Resolution and Sanctions Compliance

The conflict materially increases the risk of payment defaults and delays from both public and private sector clients. Performance bonds and advance payment guarantees – typically issued on an on-demand basis under the ICC Uniform Rules for Demand Guarantees (“**URDG 758**”) – may be called by clients seeking liquidity or commercial leverage regardless of actual breach. Contractors should immediately inform their issuing banks of the crisis situation and consider whether preventive measures against abusive calls

are warranted. Documentary letters of credit for outstanding deliveries are particularly valuable in the current environment. Companies holding existing Federal export credit guarantees (“**Hermesdeckungen**”) should assess whether loss events require notification; companies without coverage should explore whether retroactive options remain available.

For dispute resolution, the ICC and DIAC arbitral institutions have demonstrated procedural flexibility in prior crises. Parties in ongoing proceedings should proactively notify the tribunal of the operational impact and request necessary extensions. For new contracts, arbitration clauses should designate a seat outside the immediate conflict region. The FIDIC 2017 Dispute Avoidance/Adjudication Board (“**DAAB**”) is a particularly valuable instrument in the current environment: an actively constituted DAAB can resolve force majeure notifications, EOT claims, and cost disputes at an early stage, avoiding escalation into formal arbitration. The DIFC Courts and ADGM Courts have remained operational throughout. On sanctions, new or extended regimes may directly affect supply agreements, payment flows and subcontractor engagement; a regular screening programme for business partners is advisable.

#### 5. Outlook and Conclusion

The conflict has subjected German plant construction companies in the Gulf to a legal, fiscal and operational risk environment without close prece-

dent in recent regional history. The appropriate responses follow a clear hierarchy. Force majeure notifications must be issued immediately and in full compliance with applicable contractual timelines; late notification is an avoidable and consequential risk. Systematic documentation of conflict impacts should begin now. Tax exposures arising from extended project durations, operational restructuring and work-from-anywhere arrangements require prompt assessment. Duty-of-care obligations towards posted employees should be actively discharged. Payment security instruments should be reviewed and insurance structures audited for war-risk gaps.

The Gulf region will remain a significant market for German plant construction despite the current disruption. Experience from prior crises consistently demonstrates that economic activity in the region stabilises relatively quickly. For German companies, the question is how to manage the changed legal and fiscal environment prudently. Companies that review their existing project structures, contractual mechanisms and tax positions promptly, and adapt where necessary, can preserve planning certainty and protect their long-term market positions even in a volatile environment.

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