

The fuel crisis and your contract.

Diesel jumped from 164c to over 310c per litre in under six weeks. Here's what it means for principals and contractors in NSW and what to do about it.

A MARKET IN SHOCK

The largest one-month fuel price movement in Australian history.

Diesel price, late February 2026

164c/L

Diesel price, six weeks later

310+c/L

Forecast construction cost rise from pre-conflict baseline

6–9%

Construction insolvencies in 2025

3,596

WHAT THIS MEANS

Contractors are no longer fixing pricing for elements of works subject to potentially significant rise and fall. Quote validity is now as short as **15 days**.

IF YOU ARE A PRINCIPAL

Six things to consider before signing.

If you're going to allow claims for cost escalation, here are six things to consider.

- 1 Define the contractor's entitlement** to cost escalation carefully, clearly and unambiguously.
- 2 Specify the scope of the entitlement** – does escalation apply to nominated high-risk items, or the whole of the works?
- 3 Set out how escalation is measured** – published indices, or evidence such as subcontractor quotes and purchase records.
- 4 Require notice and approval** so claims can be assessed before the affected work proceeds.
- 5 Reserve a right to require alternative quotes** or market testing where escalation is material.
- 6 Avoid paying escalation twice** by ensuring any allowance already built into the contractor's original pricing is deducted.

IF YOU ARE A CONTRACTOR

Four things to push for in your contracts in 2026.

It is rare for contracts currently used in the market to allow claims for cost escalation, so here are four things to push for.

- 1** An **express cost adjustment mechanism** for all of the works subject to significant rise and fall – you don't know exactly which elements of the works will be most affected, so don't take the risk on guessing which may be.
- 2** A **change-in-law clause** that expressly captures orders or directions from authorities that affect how the works are carried out – not just changes to legislation that affect the physical works themselves.
- 3** **Realistic tender or quote validity periods** – longer periods such as 60+ days are no longer commercially achievable, without a cost escalation mechanism.
- 4** **Review your subcontract provisions** to ensure that they are no more favourable than your entitlements in your contract with the principal. Any misalignment exposes you commercially to unrecoverable cost and loss.

Be ready to claim. Review and administer your entitlements.

Check your contracts for any cost adjustment or change-in-law mechanism, and make sure you give all the required notices on time. The current market cost escalation will almost certainly affect your business, but this preparation will put you in this strongest position.

NEED ADVICE?

Drafting a fuel adjustment clause for a new contract — or weighing your position under an existing one?

Get in touch with Construction Legal. We advise principals and contractors on construction contract drafting, negotiation, and disputes.