

The Department of Defense (DoD), earlier this year in response to industry-wide concerns with rising inflation and the use of price adjustments, issued its [Guidance on Inflation and Economic Price Adjustments](#) which appears to signal recognition by the DoD that current economic conditions, particularly inflation, are affecting construction costs.

Even while acknowledging the “impacts of inflation to existing contracts,” the DoD made it clear that contractors currently performing firm fixed price contracts would not be entitled to equitable adjustments for unanticipated inflation. The impact of inflation, the DoD reasoned, is a risk that contractors must shoulder under firm fixed price contracts.

DoD Guidance for Contracting Officers

The DoD does, however, offer guidance in the memo to its contracting officers on how and when to utilize Economic Price Adjustment (EPA) clauses when entering into new contracts. EPA clauses provide a mechanism to manage specific cost risks beyond a contractor’s control, shifting a defined aspect of the cost risk to the Government. EPA clauses can serve to balance the risk of inflation between contractor and government.



About the Author

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About the Article

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