



Client Alert

April 27, 2011

SELLER BEWARE: RUSSIA ANNOUNCES NEW GOVERNMENT PROCUREMENT RULES

Russia's new procurement regulations will significantly change the way government contracts are awarded. The amendments, which go into effect on April 27, 2011, will impact any individual or entity doing business with the Russian government, including wholly-owned subsidiaries of U.S. companies and companies doing business through sales representatives, distributors and other suppliers of machinery, equipment, and medical devices.

Some key changes to the government bidding process include:

- **Contract Price:** Federal, state, and local governments are now required to justify all bids for goods and services and substantiate estimates with information from government statistics, manufacturers' public price lists and market research. This information must be included in the bidding documentation.
- **Warranty:** The government now has greater discretion in dictating the terms and duration of product warranties for new and pre-owned equipment, its start up and maintenance as well as training associated with equipment use. New equipment warranty terms must equal those provided by the original equipment manufacturer.
- **Guarantee of Performance:** The government may now require additional guarantee or security obligations from the supplier. If the contract price for new equipment or machinery exceeds 50 million rubles (approximately \$1.8 million), the supplier will be required to provide a financial guarantee of performance anywhere from 2 percent to 10 percent of the total contract price. Suppliers of medical equipment must provide a financial guarantee of performance between 2 percent and 10 percent of the contract price regardless of the contract price.
- **Suppliers:** The government is likely to expand the existing requirements for qualified government contractors (including the requirements of an established business track record, absence of debarment or suspension from government contracting, etc.)
- **Products:** In the past, government customers were obligated to include "an analogous product" along with the name brand product. Under the new regulations, the government may request specific branded products and follow product guidelines that call for use of original replacement parts.

While the amendments are designed to reduce corruption in the government procurement process, they place additional requirements on government suppliers. Therefore, it is necessary for all parties doing business with the Russian government to be cognizant of these changes if they expect to win government contracts.

If you need assistance in planning, structuring and implementing various transactions in Russia or have any questions, the Armstrong Teasdale International Practice Group invites you to contact:

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