

State Procurement and the Knight of the Rueful Countenance

By [Nikolay Voznesenskiy](#)

August 09, 2011

The  **Moscow Times**



Nikolay Voznesenskiy
Head of Competition & Antitrust Practice
Goltsblat BLP

The Federal Anti-Monopoly Service has been very active in policing public procurement issues, being the most prominent advocate for the newly created state procurement system and the most vigorous regulator. Their goal is competition and the creation of price efficiency, with mantras of "open electronic auctions" and "bank guarantees to secure tender participation."

Anyone following the Russian state procurement developments system in recent years should have asked themselves the following question: Do costs incurred due to tender preparation rules (governmental costs), participation in it (business's resources), as well as the standard antitrust inspections and subsequent litigation (both governmental and business resource) contribute to a more transparent market and lower prices or has it simply led to increased costs and higher prices?

Statistics provided by the Federal Anti-Monopoly Service show that participation by at least five companies in a tender results in about a 25 percent reduction in price. It is important to note, however, that this reduction is from the initial maximum price of a particular tender, not necessarily a reduction compared with the price of the previous year. It is also quite difficult to get such intense competition in many important tenders, such as the procurement of pharmaceuticals.

The key to increasing efficiency in the long run may rest with another figure. Only 2.4 percent of invalid tenders were presumably the result of collusive bids. This is the job of the Federal Anti-Monopoly Service and it seems to be good at it. On the contrary, 64.3 percent of invalid tenders failed because only one company was admitted to bidding due to extremely restrictive technical requirements, a sign of possible corruption by tender officials. The antitrust watchdog can only control the process and cannot provide for competitive technical requirements in every tender. The bottom line is that the tendering state body needs to be committed to competition, as only it has the tools to guarantee it. The right incentives are not in place so far.

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