

Maximum prices of medicines and medical devices can be set by government during epidemics

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On 26 March 2020, a [Federal Law](#)* came into force allowing the Russian government to set maximum prices for any medicines and medical devices for up to 90 days in case of an emergency or the threat of the spread of dangerous diseases (including COVID-19).

According to the new Law, if after 30 days of monitoring retail prices for pharmaceuticals and medical devices the government detects price increases of 30% or more, it can then introduce restrictions on the prices of these products.

In particular, the government will have the right to determine, for a period of up to 90 days, a list of medicines and medical devices for which it can set manufacturers' maximum selling prices and maximum wholesale and retail mark-ups.

Maximum prices set by the government will apply to manufacturers, distributors and pharmacies.

It is important to note that this right is granted to the government for any medicine and medical device without exception.

In addition, the Russian State Duma is considering a [bill](#)* to increase penalties and sanctions for any company violating these rules.

Issues facing business

It is not yet clear how the new model of drug price restrictions will be implemented in practice, including:

- what methodology will be used to monitor prices;
- how the government will determine the permissible amount of maximum mark-ups; and
- whether the new rules will apply to products already on the Russian market (imported into Russia or sold by a local manufacturer to a distributor) before the respective government's decision came into force.

The introduction of this mechanism creates risks for good-faith market participants since any distributor, retailer or competitor, who unfairly sets inflated prices for a product during a given month, could "activate" the government's price-reduction mechanism. This, in turn, would lead to a decrease in revenue for a good-faith manufacturer.

In addition, the application of the new rules will require additional negotiations with counterparties to change previously agreed-upon prices and mechanism for possible disputes. It will also make it more difficult to account for changes in product prices for tax purposes.

Recommendations

To minimise these risks (i.e. to be prepared for a sharp price increase), companies should monitor the retail-market prices of the products they manufacture or sell.

They can also take the preventive measure of setting the maximum resale prices for goods in their contracts with customers, which is permitted by law. This will give them some control over product prices and reduce the risk of becoming the target of a forced price reduction by the government.

This eAlert was prepared by our team of CMS specialists specifically dedicated to following legal developments and new restrictions related to COVID-19. They prepare daily on-stream summaries on any related legal acts that are sent to our local clients and their head offices.

If you have any questions on the above or wish to be informed about our on-stream summaries on the legal measures adopted in response to the COVID-19 epidemic in Russia, please contact us at cmsrussia-coronavirus@cmslegal.ru.

* In Russian

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