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Document number: ECRI-RM-007 (DESC)	Novation - Assignment of Purchase Orders/Subcontracts	Page: 1 of 1
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Purpose: To discuss the issues surrounding the subject of Novation and provide guidelines for dealing with the inherent risks involved.

Introduction: Novation is defined as the substitution of new contract for an old one or, more commonly, the substitution of one party in a contract with another. In this case, the EPC Contractor replaces the Client in a purchase order already placed with a Supplier/Subcontractor. For a Novation to be valid, agreement is required from all three parties, namely the Client, the Supplier and the EPC Contractor.

Scope of Application: Novation is becoming a common practice, more prevalent with Middle Eastern Clients, as part of their investment and procurement strategies to protect the end date of their projects, and maximize cost savings, by bringing the new facility on line at the earliest possible time and with the least possible risk exposure. Novation is often associated with large, usually complicated items of equipment, that have a long delivery date, which would be on the critical path, thereby dictating the overall project schedule. Clients try to overcome this problem by ordering this equipment as early as possible prior to placement of the EPC Contract. (The status of the purchase order, at the time of award of the EPC contract will vary). Normally, as a condition of the EPC contract the EPC Contractor will have to accept Novation of this equipment, i.e. all the technical and commercial terms, as already agreed between the Client and the Supplier. This is usually without any recourse by the EPC Contractor as the Client seeks to transfer all the risk and liabilities on to the EPC Contractor. Novation of sub-contracts have additional risks such as safety, insurance, indemnity and adherence to the construction schedule. As stated, this is a precondition for award of the EPC Contract and is normally non-negotiable with no give and take. (The EPC Contractor always has the option not to proceed with bidding for the project.)

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