



Malaysia Competition Commission

Bid Rigging: 'What You Need to Know and What You Need to Do?'



INTRODUCTORY REMARKS ON BID RIGGING

Key Points

- 1. Bid rigging can occur in any country and in any market**
- 2. Bid rigging significantly increases prices of goods and services**
- 3. Fighting cartels and bid rigging is a top priority for most competition authorities**
- 4. Effective tools, such as the MyCC Guidelines, can help fight bid rigging**

Why worry about bid rigging?



Public procurement typically accounts for approx 10-25% of GDP in most countries

Bid rigging can raise prices significantly (20% or more)



**POTENTIAL WASTAGE OF TAX PAYER
DOLLARS CAN BE SIGNIFICANT!!**

Importance of Competitive Procurement

- Drive prices to marginal costs
- Drive firms to minimize their cost
- Drive innovation



A competitive public procurement system will accrue benefits to the whole economy as public procurement often involves key infrastructure (highways, railways, electricity) for other industries

The improvement of procurement procedures led to significant savings in a number of countries



- **USD 3.1 million savings for the Karachi Water and Sewerage Board (Pakistan)**
- **Significant reduction in electricity prices in Bangladesh**
- **47% saving in the procurement of certain military goods in Columbia**
- **43% saving in the cost of purchasing medicines in Guatemala**

In the EU, the implementation of the EC Directive on Public Procurement in the period between in 1993 and 2002 generated cost savings of between a little less than EUR5 billion and almost EUR 25 billion.

What is Bidding?



- Bidding is a way to buy or sell goods or services through a tender or auction
- When purchasing, the bid is usually awarded to the lowest bidder
- Every country has laws and rules establishing procedures

What is Bidding?



- Any agreement (written or oral) between bidders that limit or reduces competition in a tender
- The agreement may be between a bidder and a potential bidder that does not actually submit a bid

- The agreement may work well and last a long time, or not last long at all
- In most countries, all bid rigging agreements are illegal, and in some countries it is a criminal offence



Common Forms Bid Rigging

Cover bidding – pre chosen winner, the ‘loser’ deliberately bid over an agreed amount which creates an ‘artificial’ lowest competitive bidder

Bid suppression – agreement not to join tender, thus ensuring pre agreed participant to win the tender

Bid withdrawal – withdraws winning tender

Bid rotation – rotation among competitors to win tender

Non-conforming bids – deliberately including terms and conditions or specifications not in accordance with the tender

Bid Rigging vs. Corruption

- **Corruption can involve one company paying a bribe to a government official**
- **Bid rigging must involve at least two companies- they must agree to avoid competition**



Example – U.S. Gloves case

- 4 firms bid on 4 types of gloves (women's dress gloves, women's outdoor gloves, men's dress gloves, and men's outdoor gloves)
- Each type of glove was a separate contract
- Procurement official noticed that each of the 4 firms won one contract



Example – Seoul Subway

- Seoul city announced tenders for contracts on six sections of work construction to extend Seoul subway line No.7
- Six major construction companies each won one section of the work in the tender
- The six companies had met and agreed to allocate one section of each work to each company.



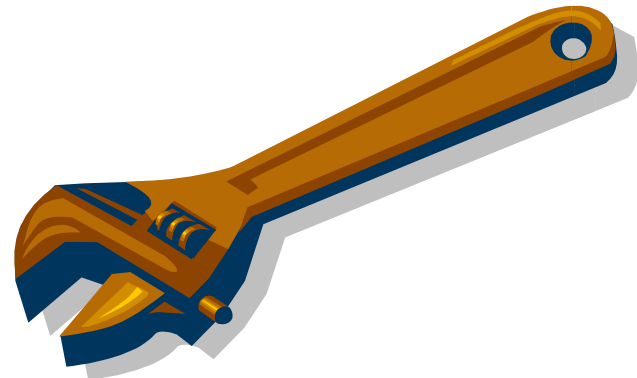
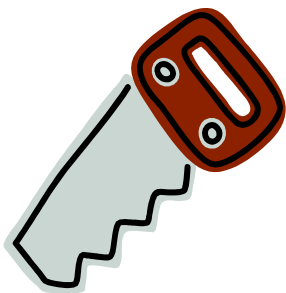
Example – U.S Paint Brushes Case

- Two companies bid on 90 contracts over 7 years
- Two procurement auditors were discussing these contracts during lunch, and they noticed that each firm won 50% of the contracts each year



Example – U.S. Storm Damage Repair Case

- Identical typos in two bidders' cover letter to repair damage done when a typhoon hit Guam
- The letters both end with identical words: 'Please give us a call us if you have any questions. Thank you very much'
- By noticing the extra "us" in both letters, the procurement official uncovered the cartel.



Examples – Canadian Bus Services Case

- Both bidders submitted bids that were very similar
- After award, the bidder who received only a small portion of the award (losing bidder) telephoned procurer
- Procurer's notes of conversations with losing bidder follow. The losing bidder indicated that he knew bids were close, even though they were sealed bids



Examples – U.S. Ice Cream Case

- Two firms submitted bids for ice cream to supply Department of Defense
- First Clue
 - Following slides illustrate one bidder submitting the competitors' bid
 - The procurement official first noticed that on item #35 of the bid form, both bidders made the same mistake – they both multiplied the quantity (8,400 GL) times the price per dozen (4.68/dz) instead of the price per gallon (12.45/gal)



U.S Ice Cream Case Clue 1

Capitol Bid

	ICE CREAM, REGULAR, TYPE II, GRADE 1, GENERAL 8.0% MP (MIN), CHOCOLATE, FRUIT, NUTS OR OTHER BULKY FLAVORS					
15	<u>13722</u> 4 (FLUID OUNCE) CUP FIBER/PLASTIC	8,400	GL	4.68/doz 12.45/gal	39,312.00	

Briggs Bid

	ICE CREAM, REGULAR, TYPE II, GRADE 1, GENERAL 8.0% MP (MIN), CHOCOLATE, FRUIT, NUTS OR OTHER BULKY FLAVORS					
15	<u>13722</u> 4 (FLUID OUNCE) CUP FIBER/PLASTIC	8,400	GL	4.50/doz 11.97/gal	37,800.00	

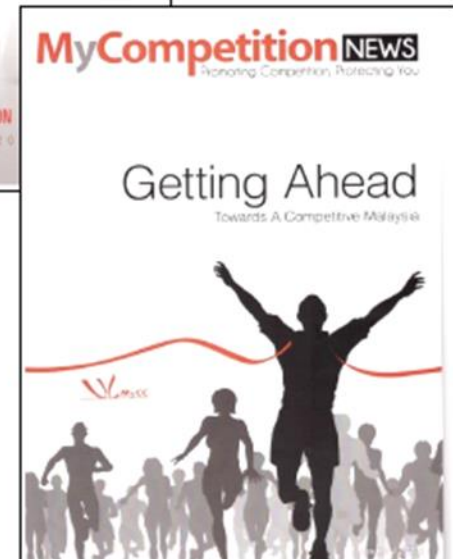
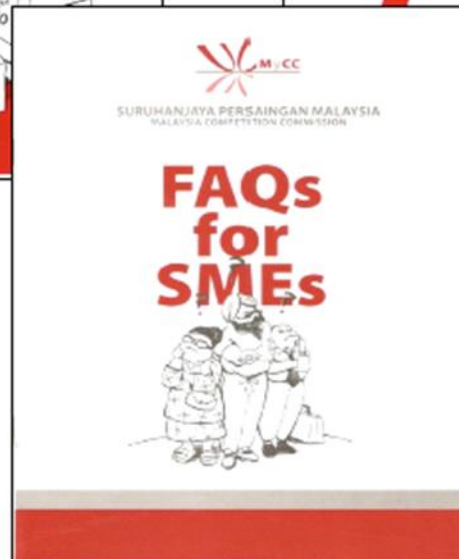
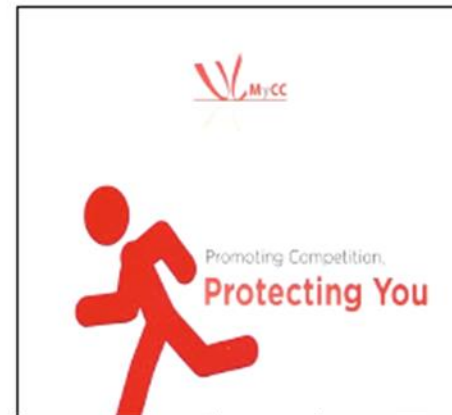
Examples – U.S. Ice Cream Case

- Second Clue
 - The procurement official examined the envelopes used to submit the bids
 - Post marks showed both envelopes were mailed for the same post office at the same time
 - The stamps (with the pictures of the cars) were ripped from the same roll of stamps

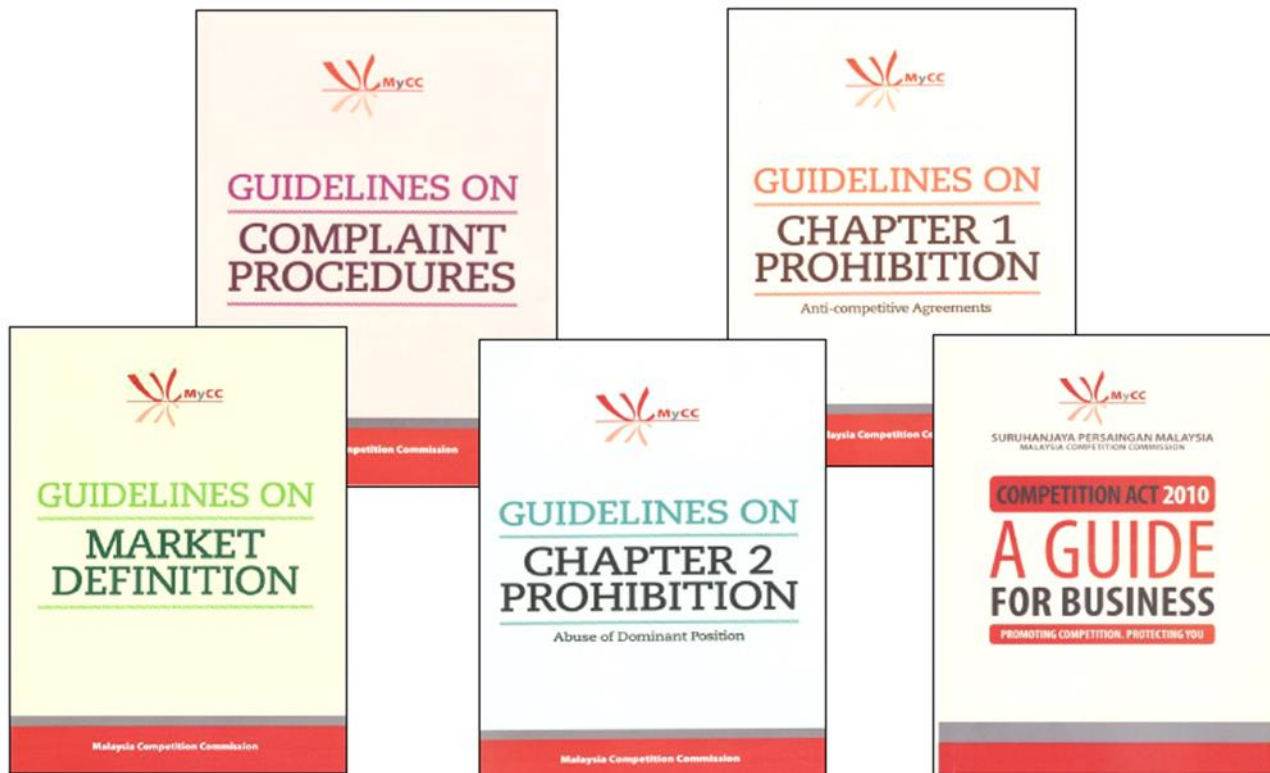
U.S Ice Cream Case Clue 2



MyCC's Publications



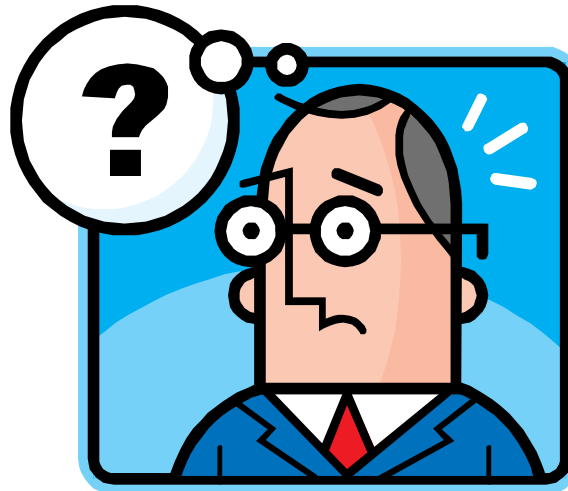
MyCC's Publications



MyCC's Publications



Any Questions??



THANK YOU



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