

Economic Approaches to Fight Bid Rigging

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Agenda

- Definition of bid rigging
- Economic impact of bid rigging
- Detection of bid rigging
- Prevention of bid rigging

Definition of bid rigging

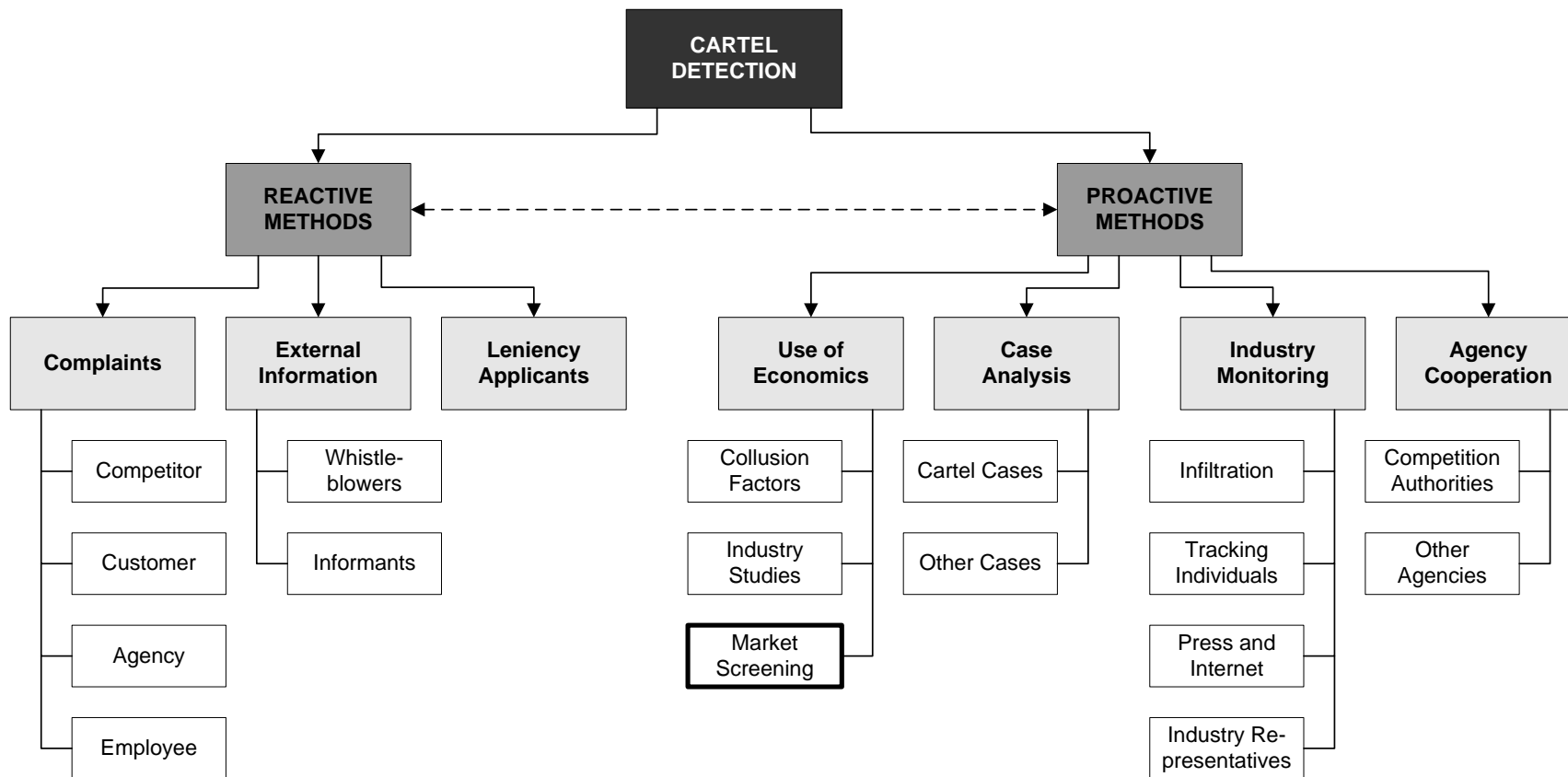
- **Bid rigging** occurs when businesses,
 - that would otherwise be expected to compete,
 - secretly conspire to raise prices or lower the quality of goods
 - for purchasers who wish to acquire products through a bidding process (OECD, 2009)
- **Forms of bid rigging**
 - cover bidding
 - bid suppression
 - bid rotation
 - market allocation

Economic impact of bid rigging

- **Bid rigging** conspiracies are often considered as **especially ‘harmful’**
- Three basic **determinants of ‘harmfulness’**
 - **Frequency of cartel occurrence**
 - Public procurement is significant fraction of GDP in many countries
 - International cartel data set contains about 20 percent bid rigging conspiracies (Connor, 2005)
 - National competition authorities partly show larger shares of up to 70 percent (Froeb et al., 1993)
 - **Cartel overcharge**
 - International cartel data shows total mean overcharge of 23.3 percent (Connor, 2005)
 - Sub-set of bid rigging cartels show mean overcharge of 18.6 percent
 - **Cartel duration**
 - Bid rigging cartels on average last longer than other types of cartels (Connor and Zimmerman, 2005, studying determinants of cartel length)

Detection of bid rigging I

Categorization of methods to detect cartels



Detection of bid rigging II

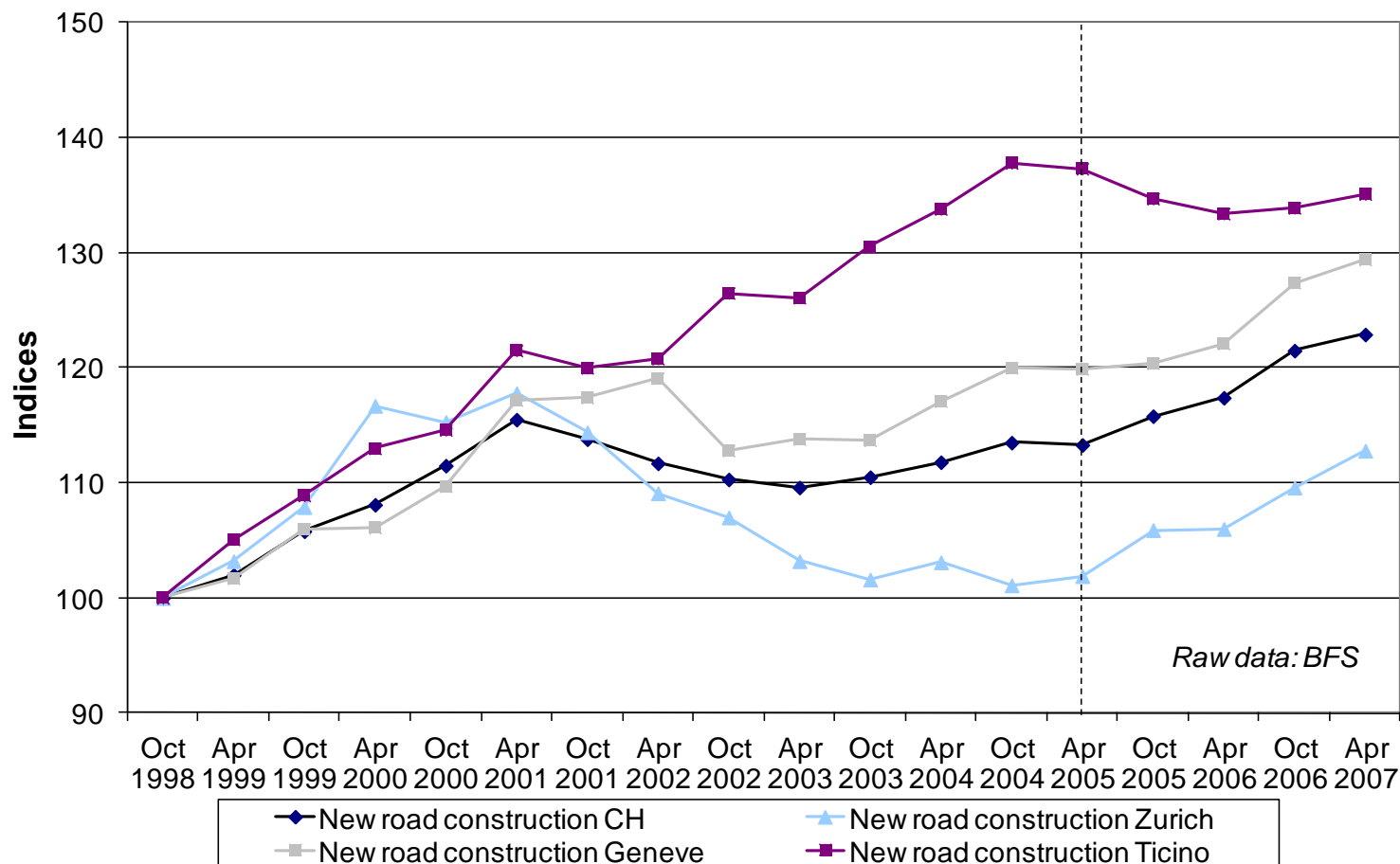
- **Screening** refers to a process whereby industries are identified for which the existence of a cartel is likely (Harrington, 2006)
- **Two-step procedure** often proposed
 - **Structural assessment** of all industries to identify industries in which a cartel is more likely
 - **In-depth behavioral study** of these ‘suspicious’ industries to collect evidence for the actual existence of collusive agreements
- **Bid rigging conspiracies** might be particularly **suitable** for an application of screening tools
 - **Identification** of (public) tender markets often is straightforward thereby easing the identification of ‘suspicious’ industries
 - Tender procedures typically generate the necessary **detailed data** to conduct subsequent behavioral assessments
 - Problems of competition authorities to **access** such detailed data

Detection of bid rigging III

- General identification of **‘suspicious’ behavioral patterns** unusual in competitive bidding markets (FCA, 2012)
 - Bidding process
 - Bidding documents
 - Bidding prices
 - Bidders’ behavior
- **Application of quantitative techniques**
 - **Identification of patterns**
 - Is behavior inconsistent with competition?
 - Is there a structural break in behavior?
 - **Comparing competition and collusion**
 - Does the behavior of suspected colluding firms differ from that of competitive firms?
 - Does a collusive model fit the data better than a competitive model?

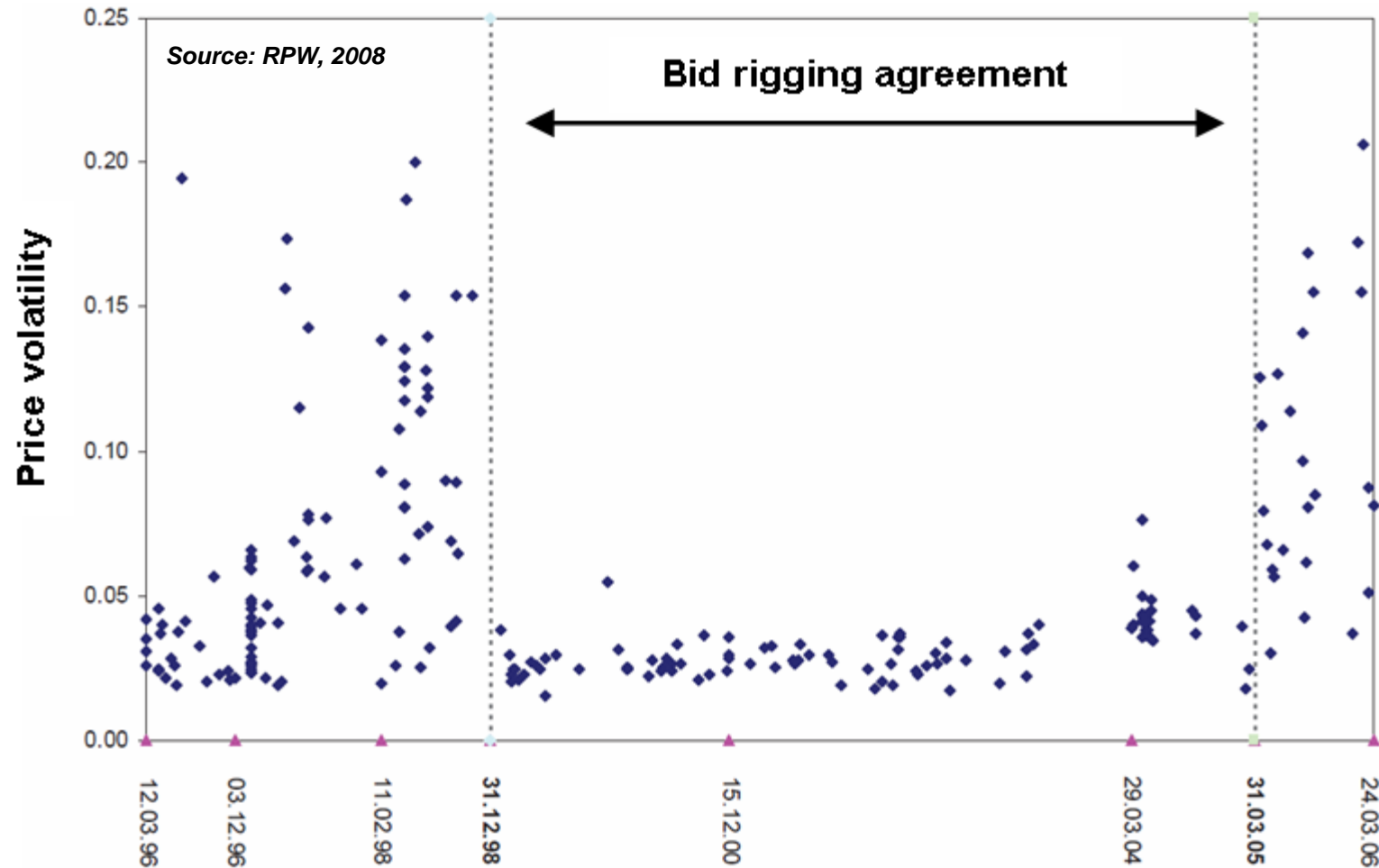
Detection of bid rigging - Example from Switzerland I

Price indices for new road construction



Detection of bid rigging - Example from Switzerland II

Development of the price volatility of the offers



Prevention of bid rigging

- **Effective prosecution of bid riggers**
 - Company fines
 - Personal fines (financial, incarceration)
 - Exclusion from future tenders
- **Design and execution of tender procedures (CCB, 2011)**
 - Process of seeking bidders
 - Drafting tenders
 - Awarding procedure
 - Training and review
- **Effective compliance activities by participating firms**
 - General training
 - Internal tools to detect bid rigging
 - Internal sanctions
 - Choice of organization structures which are less prone to collusion

Thank you for your attention!

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