

**Competition Commission of India
Public Procurement:
Achieving Best Value Through Competition**

SESSION II
**Identification and
Prevention of Bid Rigging**

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What is Bid Rigging?

- Advance agreements about who is going to win a particular bid
- Bid rigging is harmful because it
 - Eliminates or reduces competition
 - Artificially raises prices
 - Generally found to increase prices between 20%-40%

Common Bid Rigging Schemes

- Bid Rotation
- Bid Suppression
- Complementary Bid
- Subcontracting
- Market Allocation

Bid Rotation

- All conspirators submit bids, but take turns being the lowest bidder
- The terms of the rotation may vary
- Example
 - Company A submits the low bid first time
 - Company B submits the low bid next time
 - Company C submits the low bid third time

Rotation of Bids

Men's Outdoor Gloves

	<u>Year 1</u>	<u>Year 2</u>
Firm A	\$10	\$14
Firm B	\$12	\$12
Firm C	\$13	\$13
Firm D	\$14	\$10

Women's Outdoor Gloves

	<u>Year 1</u>	<u>Year 2</u>
Firm B	\$10	\$14
Firm C	\$12	\$13
Firm D	\$13	\$12
Firm A	\$14	\$10

Men's Dress Gloves

	<u>Year 1</u>	<u>Year 2</u>
Firm C	\$10	\$14
Firm D	\$12	\$12
Firm A	\$13	\$13
Firm B	\$14	\$10

Women's Dress Gloves

	<u>Year 1</u>	<u>Year 2</u>
Firm D	\$10	\$14
Firm A	\$12	\$13
Firm B	\$13	\$12
Firm C	\$14	\$10

Rotation of Bids

Elevator Case



- Five European elevator manufacturers met before bid to divide up which bids would be won by each
 - United Technologies, ThyssenKrupp, Kone, Schindler Holding, and Mitsubishi
- Rigged contracts included both public and private ventures and included services for installation of elevators and escalators, as well as maintenance
- Used false names, pre-paid phone cards, and met at bars and restaurants to conceal the arrangements
- Fined \$1.3 billion by the European Commission



Bid Suppression

- Agreements that one or more competitors will refrain from bidding or withdraw previous bids
- Example
 - Company A and Company B agree that only Company A will bid on this contract

Bid Suppression *(cont'd)*

- Public procurement for Company A's hardware
- Company A and Company B are reseller of A's products, invited to bid
- Company A desires
 - To protect its margins
 - To expedite process to book sale
- Company A asks Company B not to bid

Complementary Bidding

- Also known as cover, courtesy, token, or symbolic bidding
- Occurs when competitors agree to submit bids that are either
 - Higher than the bid of the designated winner
 - Known to be too high to be accepted, and/or
 - Contain terms that are known to be unacceptable
- Often occurs in conjunction with other types of bid rigging schemes to make it appear that competition exists
- Can also be used to conceal an inflated winning bid
- Example
 - Company A, Company B, and Company C agree that Company A will submit a high bid, and Company B and Company C will submit even higher bids so that Company A's bid wins and appears reasonable

Complementary Bids

	<u>BANDAGES</u>		<u>MEDICAL BOXES</u>	
Year 1	Smith	\$10	Johnson	\$11
	Johnson	\$13	Smith	\$14
Year 2	Smith	\$12	Johnson	\$13
	Johnson	\$15	Smith	\$16
Year 3	Smith	\$14	Johnson	\$15
	Johnson	\$17	Smith	\$18

Complementary Bids

Wisconsin Transportation Case

- Agreement among three construction companies to rotate bids and submit inflated prices on projects
 - Vinton Construction, Streu Construction, James Cape & Sons
- Over the course of several years, companies met to divide up contracts for State Department of Transportation including street, highway, bridge and airport construction projects
- Each company submitted a "complementary" bid to hide their agreement while the designated company submitted a slightly lower, winning bid
- Participants met at a local hotel to discuss which jobs they wanted for themselves and which others could have
- Talked in code over the phone



Subcontracting

- Agreements to select winning bidder and provide losing bidders to be subcontracts
- Allows the firms to split benefits of illegally obtained contract
- Example
 - Company A and Company B agree that Company A will submit the lower bid
 - In exchange Company B will be a subcontractor on the project

Market Allocation

- Agreements by which competitors divide markets among themselves
- Division could be by territory, by customer type, by product, or any similar factor
- Example
 - Company A only submits bids for jobs north of the city
 - Company B only submits bids for jobs south of the city
- Discussion: Concentration in U.S. procurement market

Market Allocation

Dust Control Case



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