

# Published research by CCP members

## Policy Brief

### Division of Public Contracts into Lots and Bid Rigging: Can Economic Theory Provide an Answer?

**KEYWORDS:** Public Contracts, Economic Contracts, Small Business, Market Entry, participation

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#### BACKGROUND

- Within the public sector large contracts are often split into smaller contracts or “lots” which are then bid for by participants.
- This generally enhances competition by improving participation from smaller businesses however it may also cause bid rigging.
- Big rigging is when participants conclude to choose the winner of a lot. This can cause an increase to budgets and taxes with no positive impact on society.
- Economists has established two rules to help deal with bid rigging:

**Rule One:** Having a number of lots smaller than the number of total participants

**Rule Two:** Reserving at least one lot for new participants.

#### METHODOLOGY

- The paper reviews the legal framework for division of public contracts in Europe.
- It then evaluates the effectiveness of rule 1 and rule 2 in practice.
- It then makes suggestions on how the process of bidding on lots could be improved.

#### KEY FINDINGS

- Rule one doesn't always work in practice as the market can be more complicated than economic theory suggests. For example; firms often compete in multiple bids, subcontract bids to other firms, or are allowed to withdraw from bids.
- Rule two is not always followed in practice. National Authorities have a large amount of freedom under EU law to decide if they wish to follow rule two or not. Data suggests only 7 out of 28 EU countries have a desire to treat small businesses preferentially which suggests most countries would choose not to follow rule 2.

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### POLICY ISSUES

- **Economic theory is not a panacea for reducing bid rigging, the findings suggest real world markets are more complicated than rule 1 and rule 2, however bid rigging could potentially be reduced by:**
  - Reducing the amount of information about how a bid is split into lots.**
  - Stricter Regulation of bid withdrawals or forbidding them entirely.**
  - Better regulation on pricing strategy when lots can be bundled.**
  - Increasing awareness by issuing guidelines for procurement officers on bid rigging, and by ensuring they review the potential for bid rigging before splitting a contract.**

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### ABOUT CCP

The Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

### FOR MORE INFORMATION

More information about CCP and its research is available from our website: [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)

To discuss this policy brief, please email: [ccp@uea.ac.uk](mailto:ccp@uea.ac.uk)

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