

Notifying Firms of Evidence Consistent with Bid Rigging: A Field Experiment in Japanese Public Procurement

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Introduction

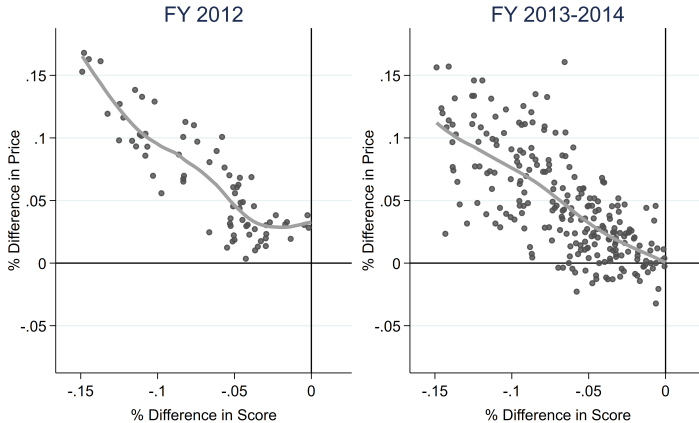
- As regulations grow more complex, agencies increasingly rely on regulated firms to monitor themselves, building compliance systems, detecting violations, and taking corrective action
- Antitrust is no exception
- This talk reviews evidence from Kawai and Nakabayashi (2025) on whether firms change behavior when presented with evidence of suspected cartel involvement
- We assess how nonbinding tools, such as notices and voluntary programs, affect firm behavior

Kawai and Nakabayashi (2025)

- Develop a screen for bid rigging in auctions and flag 240 firms whose bidding patterns are inconsistent with competition
- Randomly assign about half of the flagged firms to receive a letter explaining the screening result
- Treated firms' bidding behavior shifts: the screen rejects the null of competition for controls but not for treated firms
- Other evidence, including stable prices, suggests firms likely concealed evidence while continuing to collude
- Compliance capacity in colluding firms appears too weak to complement formal enforcement

Screening for scoring auctions: Overview

NIPPO Corporation



Screening: Data and Results

Data

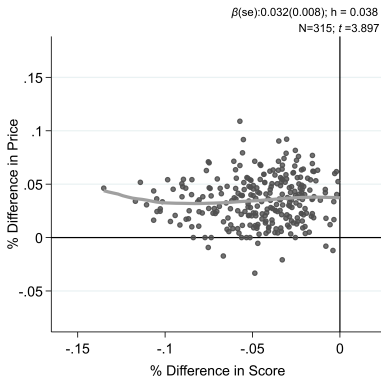
- 7,000 firms bidding in 30,000 scoring auctions run by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) in Japan, 2015–2017
- Firm addresses obtained via information disclosure requests when not publicly available

Results

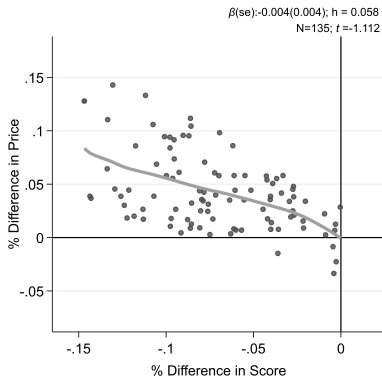
- 240 firms identified as collusive
- Treatment assigned via rerandomization (107 treated; 133 control)
- Letters mailed to treated firms in February 2019

Examples: Collusive vs. Non-collusive

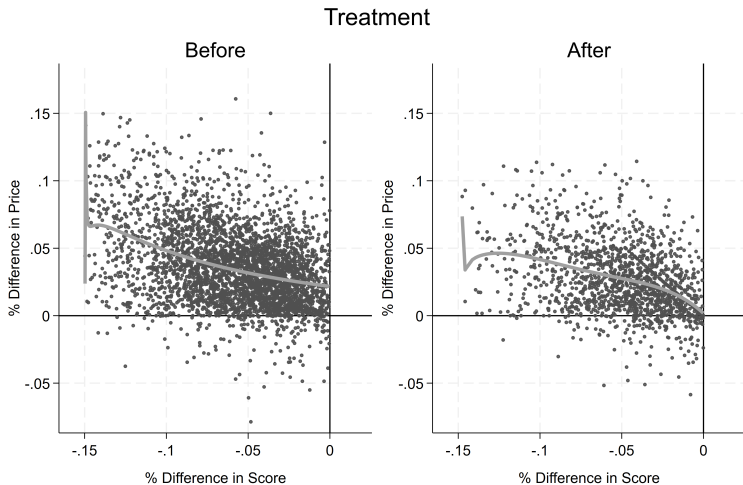
Collusive



Non-collusive

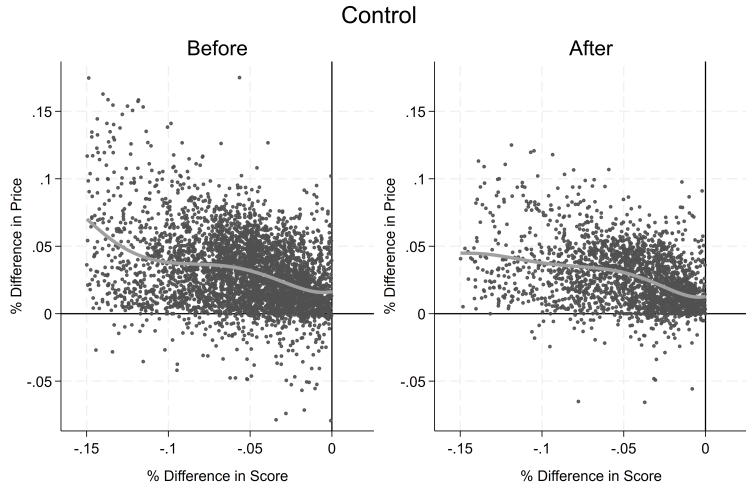


Treatment Group



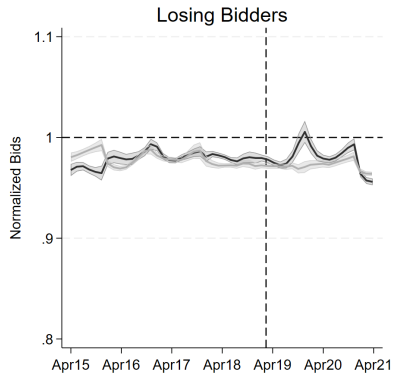
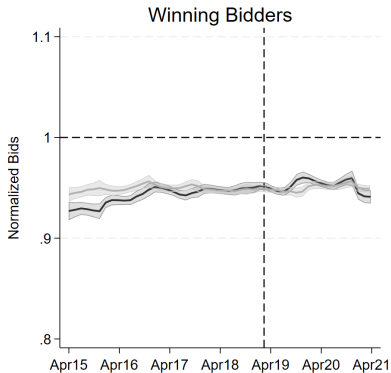
Before: Apr 2015–Feb 2019; After: Mar 2019–Mar 2021

Control Group

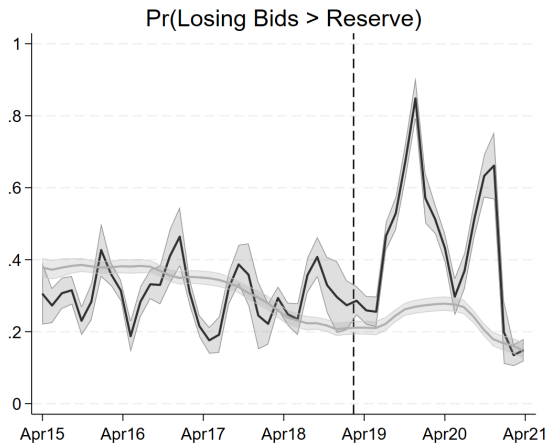


Before: Apr 2015–Feb 2019; After: Mar 2019–Mar 2021

Bids



Number of Invalid Bids



Bidding Above the Reserve Price as Adaptation

- Bids above the reserve price are unscored or low-scored, which widens score gaps.
- This can make marginal losers look lower quality and can mask collusion.
- The behavior is similar to staying out of the contest, a common collusive sign.
- Adjusting to one screen can trigger violations of others.

Firm Compliance and Enforcement

- As rules become more complex, enforcers rely more on firms' internal compliance.
- We test whether firms take remedial steps when shown evidence of violations.
- Bid-rigging firms often lack the capacity needed to support enforcement.
- Adjusting to one screen can lead to violations on other dimensions.
- Using several complementary screens can make collusion harder and less profitable.