



Korea Fair Trade Commission

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Cartel Policy Division

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KFTC Exposed and Sanctioned on Bid Rigging of Busan Subway **Line 1 Extension (Dadae Section) Turnkey Construction** **- Imposed Corrective Measures with 12.2 Billion KRW Fines -**

SEJONG, KOREA – The Korea Fair Trade Commission (KFTC, headed by Chairman Noh Dae-lae) uncovered and issued corrective orders to six construction companies for bid rigging in which they promised the contract to three parties while having another three to participate as Shills to call out the phantom bids for designs and prices of extension turnkey construction of subway line 1.

The Commission imposed correction order with fines of 12.2 billion won to the six construction companies.*

*Hyundai E&C, Hanjin Heavy Industries and Construction (HHIC), Kolon Global, Daewoo E&C, Kumho Industrial, SK E&C

The Commission reported to the Prosecution three construction companies* that won the bid by hiring Shills.

*Hyundai E&C, HHIC, Kolon Global

Successful Bidders V.S. Shills (Classified by Zones of Construction)

| | Successful Bidders | Shills |
|--------|--------------------|------------------|
| Zone 1 | Hyundai E&C | Daewoo E&C |
| Zone 2 | HHIC | Kumho Industrial |
| Zone 3 | Kolon Global | SK E&C |

1. Background to the Measure

□ How it Started

Field investigation was carried out on the turnkey construction for extension of Busan subway line 1 (Daedae section) on suspicion of bid rigging (October 7, 2013).

□ Investigated Cases

Alleged bid rigging of zone 1, 2 and 4 constructions were submitted to the KFTC All Member Meeting as respective* bid rigging cases.

*This case is not determined as zone grouping. According to the order information, the construction companies in question got ready for the bidding individually. Then after the announcement, the bid rigging was made respectively for each construction zone in a way that each company seeking skills and rigging bids individually.

****Zone 3 was exempt from investigation as...** it was determined that competition was made in Zone 3 as analyses had been made on the cause of the failure according to the company in question's internal data and the current situation data from the industry.

2. Law Violation

□ Settlement between Designated Winner and Shills

The designated winner company had participated in the bidding by setting shills at the head to call out the phantom bids for designs and prices.

□ How the Bid Rigging Carried Out

The bidding ring made the designated winner to be auctioned off at a high price, by design collusion and price fixing, in which they made the design score gap wide while pricing score gap narrow.

□ Design Collusion

Shills submitted the least designs (shills designs or B designs) to avoid being unqualified by getting help from the designated winner.

- The designated winner provided the shills with basic data (on the groundwork) and shared information with the shills on major construction method which will be applied to the design.

□ Price Fixing

The designated winner and the shills participated in the bidding with the bidding price settled in advance through landline contact just before the bidding started.

Bidding Result Status (by Zones)

(Unit: KRW million, %)

| Zone | Bidder | Budget (Estimated) | Bidding Content | | Design Score (65%) | Pricing Score (35%) | Total Average (100) |
|--------|---------------------|-----------------------|-----------------|-----------------|--------------------------|---------------------------|------------------------|
| | | | Price | Bidding Rate | | | |
| Zone 1 | Hyundai E&C | 110,292 | 107,920 | 97.85 | 59.23 | 35 | 94.23 |
| | Daewoo E&C | | 108,582 | 98.45 | 53.31 | 34.79 | 88.10 |
| Zone 2 | HHIC | 94,473 | 89,154 | 94.37 | 58.03 | 35 | 93.03 |
| | Kumho Industrial | | 89,640 | 94.88 | 52.23 | 34.81 | 87.04 |
| Zone 4 | Kolon Global | 103,868 | 97,614 | 93.97 | 58.96 | 35 | 93.96 |
| | SK E&C | | 98,622 | 94.94 | 53.06 | 34.64 | 87.70 |

3. Specific Measures Taken

- **Applied law: Item 8, Para. 1, Art. 19** of the *Monopoly Regulation and Fair Trade Act* (Bid-rigging)
 - Issued corrective orders to prohibit further law violation
 - Imposed fines worth KRW 1,223,900 million on the six companies

| Companies | Amount of Fines (Unit: KRW million) |
|------------------|-------------------------------------|
| Hyundai E&C | 4,834 |
| HHIC | 2,246 |
| Kolon Global | 1,639 |
| Daewoo E&C | 1,329 |
| Kumho Industrial | 1,098 |
| SK E&C | 1,093 |
| Total | 12,239 |

- Reported to the Prosecution on three companies (Hyundai E&C, HHIC, Kolon Global)

※ As for a cartel case, corrective orders, the amount of imposed fines, and reports to the Prosecution can be reduced in accordance with the notification of reductions. Related sales are partially adjustable at the final confirmation procedure.

4. Significance of the Measure and Expected Effect

- This measure is significant in the respect that the KFTC uncovered the bid rigging among bidders of turnkey construction for extension of Busan subway line 1, and corrected the chronic bid-rigging practice of the construction industry.

- The KFTC is determined to strengthen monitoring of public bid rigging practices which undermine fair competition and cause waste of the national budget. And the Commission will sternly put sanctions against collusion cases in accordance with the law and principle.