



Korea Fair Trade Commission

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Bid Rigging Investigation Division

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KFTC Exposed and Sanctioned on Bid Rigging of Daegu Metro

Line 3 Turnkey/ Alternative Construction

*- Exposed Zone Grouping and Preconcerted Winner and Shills,
Imposed Corrective Measures with 12.2 Billion KRW Fines,
Reported 8 Corporations to the Prosecution -*

SEJONG, KOREA – The Korea Fair Trade Commission (KFTC, headed by Chairman Noh Dae-lae) decided to issue corrective orders with fines worth at 40.1 billion won on twelve construction companies which were implicated in bid rigging of eight construction zones in the turnkey/ alternative construction of Daegu metro line 3. Among the twelve construction companies, four* companies agreed on zone grouping while another four** preconcerted winners and shills of the bidding as well as agreeing on zone grouping, and the other four*** construction companies agreed to be shills. The KFTC also decided to report the eight companies which agreed on zone grouping to the Prosecution.

#Timeline of this construction

On December 15, 2008, construction bidding was noticed.

On April 14, 2009, tender was made.

From May 15 to 26, 2009, preconcerted winner was selected.

*Hyundai E&C, Samsung C&T, POSCO E&C and Hyundai Development Company (Hyundai Dvp.)

**Daelim Industrial, SK E&C, Daewoo E&C and GS E&C

***Daebo E&C, Kolon Global, Halla E&C and Shindongah E&C

1. Overview: Law Violation

1-1. Overview: Bid rigging of zone grouping

The eight construction companies in question decided to group zones by preconcerting *a winner per each zone from zone 1 to 7 (except for zone 8) at sales team managers' meetings and others held before the bidding of turnkey/ alternative construction of Daegu Metro Line 3 in April 2009.

*For the bidding of zone 4, two companies, i.e. Hyundai E&C and Samsung C&T took part in.

Eight Companies' Zone Grouping

Zone	1	2	3	4	5	6	7	8
Participant	POSCO E&C	GS E&C	Daewoo E&C	Hyundai E&C, Samsung C&T	Daelim Industrial	SK E&C	Hyundai Dvp	NONE

1-2. Overview: Bid rigging by construction zone

□ Four construction companies participated in the successful bidders-shills agreement and four other companies agreed to be shills at the individual zones took part in the bidding after preconcerting bidders and shills by zones in advance.

Bidders-Shills Agreement for Daegu Metro Line 3

Zone	2	3	5	6	Remarks
Bidder	GS E&C	Daewoo E&C	Daelim Industrial	SK E&C	Zone 1, 4, 7, 8 were excluded*
Shills	Shindongah E&C	Halla E&C	Kolon Global	Daebo E&C	

* Zone 1, 4, 7 and 8 are confirmed not to be involved with cartel of successful bidders-shills agreement.

Result of Bidding for Turnkey/ Alternative Construction for Daegu Metro Line 3

Zone	1	2	3	4	5	6	7	8
Successful Bidder	POSCO E&C	GS E&C	Daewoo E&C	Hyundai E&C	Daelim Industrial	SK E&C	Hwasung Industrial	Taeyoung E&C
Failed Bidder	Korea Dvp	Shindongah E&C	Halla E&C	Samsung C&T	Kolon Global	Daebo E&C	Hyundai Dvp	Doosan E&C

2. Law Violation in Detail

2-1. Bid rigging of zone grouping

□ Sales team managers of the eight construction companies had met with several times from early November 2008 to mid-December.

o At the meetings, they decided that each company would participate in grouping zones from the zone 1 to zone 7 among the eight zones of Daegu metro line 3, except for zone 8, which had no prospective bidder.

✳For the bidding of zone 4, two companies, i.e. Hyundai E&C and Samsung C&T did not reach an agreement on one successful bidder, which led them to decide through competition.

✳Hyundai Development Company had agreed to participate in the zone 7 at the managers' meeting, but failed to win the bidding. (Successful winner was Hwasung Industrial.)

o On shills, they agreed to arbitrarily decide on their own shills for each zone.

2-2. Bid rigging by construction zone

□ Enterprisers participated as shills for each zone carried out the cartel by submitting the original version of design so as to get a lower evaluation points (Shindongah E&C, Daebo E&C)¹ or submitting lower quality specification (Halla E&C, Kolon Global).

¹ This construction was carried out in a way of **alternative bidding**. In alternative bidding, compared with the original version, more functional and effective new construction methods and technologies, and reduced duration are offered at a lower price than the original version, without changing basic guidelines of the original execution drawing for the construction bid proposed by the orderer. Considering the importance of designing which accounts for 75 percent in this bid, it is usual that bidders with original design fail to win the bid.

o Preconcerted successful bidders by zones either introduced consortium of shills to the shills (Shindongah E&C) or informed the preconcerted bidding ratio of the shills (Shindongah, Halla and Daebo E&C), or checked the procedure of electronic bidding by visiting the shills companies (Shindongah E&C).

Meanwhile, the shills in return, are offered to jointly win orders of large constructions in the future (Shindongah and Daebo E&C).

3. Measures Taken in Detail

Applied Law: Item 3 (Zone grouping) and Item 8 (Bid-rigging), Para. 1, Art. 19 of the *Monopoly Regulation and Fair Trade Act*

o **Issued corrective orders** to prohibit further law violation and information exchange

o **Imposed fines** worth KRW 40.197 billion won

Companies	Amount of Fines (Unit: KRW million)
Hyundai E&C	5,559
Samsung C&T	5,559
Daelim Industrial	5,463
POSCO E&C	5,250
SK E&C	3,967
Hyundai Dvp.	3,589
Daewoo E&C	2,927
GS E&C	2,677
Daebo E&C	2,231
Kolon Global	1,365
Halla E&C	807
Shindongah E&C	803
Total	40,197

* In the order of amount of fines

o Reported to the Prosecution on eight companies

(Hyundai E&C, Samsung C&T, Daelim Industrial, POSCO E&C, SK E&C, Hyundai Dvp., Daewoo E&C, GS E&C)

*** 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 and Expected Effect

This measure is significant in the respect that the KFTC **uncovered** the bid rigging among bidders of a turnkey/alternative construction for Daegu metro line 3, 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 such collusion cases **in accordance with the law and principle.**