

CIRANO note based on a report written by Stéphanie Boulenger and Marcelin Joanis, January 2016

Given the importance of the construction sector in the economy (about 16% of GDP) and in particular the public construction sector, it is particularly problematic that competition should be limited by collusion, or by corruption even, as has been stated by the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry (*Commission d'enquête sur l'octroi et la gestion de contrats publics dans l'industrie de la construction*) (CEIC). The authors address the conditions that promote competition in the provision and management of public contracts in this industry, focusing on procedures for allocating public contracts and the effects of market opening on the incidence of collusion. Their study, which is part of the mandate of the CEIC, is based on economic theory and on two main sources of information: Quebec, Canadian and international literature, and analysis of three databases provided by the CEIC.

The report begins with a theoretical framework for the evaluation of public procurement in the construction industry: the auction and collusion theory (why is the construction industry conducive to collusion?) and institutional aspects of public procurement. The second section discusses the different procedures that exist for awarding contracts in Quebec and abroad, focusing on methods for selecting the winner that are alternatives to the criterion of the lowest price. The case of public contracts in Quebec is then addressed by explaining its legal and regulatory environment at both the provincial

and municipal levels, and showing its importance in terms of figures (number and value by level of government and industry).

A comparison is then made between Quebec, other Canadian jurisdictions (Public Works and Government Services Canada) and the US, to bring out its distinctive characteristics. Moreover, the authors analyze the effects of market liberalization, specifically the opening of the Quebec construction market to interprovincial and international markets through various interprovincial and international agreements on the incidence of collusion in the construction industry.

Finally, the authors make recommendations and propose possible solutions to improve the efficiency of public procurement in Quebec, which are grouped into four themes:

- A. relative importance of the criteria of price and quality in the evaluation of bids;
- B. harmonization of the laws applicable to municipalities and the Quebec government;
- C. systematic and independent assessment of system performance;
- D. measures to promote competition and innovation.

The full report, originally filed in December 2014, is published on the CIRANO Website at:

<http://cirano.qc.ca/files/publications/2015RP-23.pdf>