

Summary of the Proceedings of the 11th Contract Review Committee

Okinawa Institute of Science and Technology (OIST) Graduate University

1. Date and time: February 28, 2017 (Tuesday), 9:30–11:30
2. Place: Conference Square M+ Middle 1
3. Attending members: Susumu Katada, Hidemitsu Sakihama, Itaru Shimizu, Hideaki Tanaka, Toshiaki Tada, and Susumu Namerikawa

4. Summary of the proceedings

○ Overview of OIST

The Secretariat explained the overview of OIST.

○ Agenda

(1) Extraction of cases for review

Committee Member Namerikawa explained that he selected two cases (one on construction work and another on service provision) were extracted by type of contract from the 259 cases that were subject to review.

Reasons for the Extraction of the Cases

Supervising Committee Member: Susumu Namerikawa

[Goods/services contract]

- No. 61

- Reason for selection

Based on assumptions, in combination with cases No. 21 and No. 35, this contract case appears to show repeated bids by largely the same group of bidders (three to four companies), and such activity is assumed to continue in the future. It was selected, as it was deemed necessary to monitor whether competitiveness is being ensured with sufficient care all times.

[Facility/construction work-related contract]

- No. 73

- Reason for selection

It was selected because the successful bid rate was low.

- [1] Low successful bid rates can be seen occasionally in facility construction work, but does that same tendency apply in piping work as well?
- [2] How did OIST carry out checks as measures against dumping and how were the results of those checks assessed?
- [3] Where did the divergence occur between the assumptions at the time the planned price was calculated and the estimate of the bidders? (Quantity, productivity, or unit price?)

(2) Reviews of the individual cases

1. Facility construction case

[1] Piping construction work to install OIST water intake facilities underground

Opinions/comments of committee members	Secretariat's explanation, etc.
Will this construction work be completed with this contract or continue?	The work will be completed with this contract.
Did the two other companies that submitted bids offer a lower price than the planned price?	(Document: "Result of bid opening") The bid of one of the two companies (Company A) is considered a low-priced one. This same Company A has also taken on the contracts for machinery and facilities construction at OIST's Marine Science Station and the pump construction work in the water intake building, among others. As compared with the bid amount of the company in question, Company B's bid amount seems to be priced within the limit. Company A is, among others, able to save miscellaneous expenses because of the pump construction work in the water intake building. However, we think that Company A's bid amount is one that envisions there would be no other competing participants.
How many bid participants were there this time?	Five parties presented their estimates, but only three of the five participated in the bid.
Has Company B contracted for other construction work before?	Company B has contracted for civil engineering work worth about JPY 20 million.
What was the state of the bid when Company B contracted for the civil engineering work?	It was comparatively cheap. We think that Company B's miscellaneous expenses were low because they are not a large company.
I think the evaluation of costs is difficult when the scale of business of the bidders is small. Did you survey the low-priced bids and concluded that there were neither problems, nor suspicious points regarding to content?	That is correct. The cost of the civil engineering work, which was previously performed by Company B, involved material and installation expenses only. Civil engineering work that does not involve many material expenses or time and effort for construction tends to be lower in price.
Were the costs related to the materials used the same price as those of the other bidders?	They were not the same. Contractors who can purchase materials together can provide comparatively cheaper services. If you look at the breakdown of construction work related to power generators and air-conditioning equipment, companies with big facilities tend

	to purchase such equipment at low prices.
If you consider the size of Company A and that it procured the materials at cheap prices, did it require them to make a considerable effort?	We think that it was going to be able to handle the work at this price because it contracted somebody else to conduct other comparatively large piping work at the same time.
Speaking in general, in cases of low-priced bids, is it possible that these bids are clearly below the cost temporarily; however, when there is a prospect of construction being completed in sight, they want to make a contract with a low-priced bid strategically?	That is possible. A few years ago, there were cases of subcontractors being “bullied” in civil engineering work in certain prefectures. Consequently, we ensured it is checked that bidders were not bullying subcontractors. Work in the construction industry was often given to secondary and tertiary subcontractors; however, we surmised that in this case, it was not the type of work that would extend to that kind of subcontracting, based on the number of workers in the field. Moreover, we ensure construction quality by performing work supervision firmly.
Not knowing whether it is a problem of the construction ordering party or the order receive is the biggest problem. Are dumping countermeasures required or has the planned price itself diverged from the actual price in the market?	Basically, for planned prices, we use the national unit prices. There were signs of dumping because Company C exceeded the planned price. However, if appropriate construction work were being performed, we, as the university, want to make a contract with low construction expenses. We evaluated the details in a low-priced bid survey and allowed the best bid this time. We prepared the planned price based on the state’s standard, but we ended up with the result this time of a low-priced bid.
Does OIST use standard productivity for all cases?	We follow the rules of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), as this is public works. However, as the contract in question, there are also many bids recently that have exceeded the planned price, e.g., a construction in Tokyo and regional areas; thus, malfunctions in the system are continuing. If we look, a draft titled “The Estimate Usage System” was disseminated to various institutions by the MLIT in 2014. This has a direct impact on the prices that are presented by construction work contractors. There are many of the prices presented by construction work contractors, which do not match the unit prices that the MLIT establishes. Moreover, an estimate usage

	method has been put on trial as a recent measure against the non-completion of bids. We also calculate planned prices without using the unit prices established by the MLIT.
Do you sense both the likelihood of having to look at the possibility of dumping and, at the same time, having to set a higher price on the low planned price if the bidders this time have not made bids? The problem is doubled. You are a university that promotes “international,” but are you follow the Japanese-style in procurement?	-

2. Goods contract case

[2] Heavy oil A procurement, 5

Opinions/comments of committee members	Secretariat’s explanation, etc.
Are bids for heavy oil divided into five times each year?	Those bids are divided into six times.
Did you carry out the bids in a divided way because it facilitates participation from small-scale contractors?	It was not possible to carry out the bid for oil for one year altogether because the fluctuations in the unit price throughout the year are too large. The suppliers opined that at least once every two months was an appropriate span for carrying out bids in relation to the crude oil price, which is announced publicly every week. Because of that, we are carrying out bids divided up into six times.
Considering things from the perspective of preventing bid rigging is important. I think it is important to create an environment that makes it difficult for corruption to occur by incorporating new efforts occasionally, such as this effort.	-
<p>[Reverse auctions]</p> <p>The reverse auction implemented this time was an interesting attempt, and I can see that you are making various efforts toward cost reductions. I understand that a certain level of effects has been produced.</p> <p>Are there any other cases apart from this one in which you are going to be able to implement a reverse auction?</p> <p>In addition, I heard that other university in the prefecture has stopped reverse auctions. What kind of case was it specifically?</p>	<p>[Reverse auctions]</p> <p>We attempted it this time in the procurement of heavy oil A as a case in which we could take advantage of reverse auctions during the trial introduction period of three months. For oil A, multiple participants and the competitive market are expected in the case.</p> <p>We think that effects will probably be obtainable in general goods procurement (for example, the procurement of goods that are not furniture or special research equipment) when we introduce it officially. Moreover, there are several things for which we unit price contracts (e.g., hotel accommodation expenses for resident people that occur during the holding of workshops or</p>

	<p>symposiums, or reagents for research, etc.), so we think that effects can probably be expected if the participation in a bid by multiple parties is expected.</p> <p>We have heard that this bid method was put into trial in the procurement of general goods (e.g., copy paper, pre-made furniture, etc.) in other universities in the prefecture.</p>
<p>Does it cost a lot as compared with general bids? If there are, what aspects in costs are you need to cover?</p>	<p>In our university, we've adopted an electronic bidding system, and costs of the annual maintenance and management expenses are about JPY 4 million.</p> <p>In addition to this fact, if we introduce a reverse auction system independently, it is expected about JPY 3 million to be required separately. However, because the reverse auction system we trialed this time also incorporates an electronic bid function. If the bid system can be applied, we will save about JPY 3 million in maintenance and management expenses by switching over from the current electronic bid system. We expect that cost effects will be generated.</p> <p>General competitive bids are carried out by paper-based methods in other universities of the prefecture, and they have yet to introduce electronic bidding. Because of that, they would seemingly only introduce reverse auctions, and the maintenance and management expenses would be newly generated. Therefore, they could not obtain the same cost-effect benefits. Thus, they stopped carrying the reverse auction.</p>
<p>Do you mean that you have concluded a lease contract for the current electronic bidding system, and the expenses for that amount to about JPY 4 million?</p>	<p>It means that such amount is the cost of using the cloud.</p> <p>We are using a slightly customized version of a system created by the MLIT.</p>
<p>Did you add more changes to the current system to carry out reverse auctions?</p>	<p>The system we used this time is a separate system, with a manufacturer different from that of the system made by the MLIT.</p>
<p>If it turned out that you will carry out general competitive and electronic bidding, would you switch systems?</p>	<p>If we incorporate reverse auctions, we will switch.</p> <p>With the current system, the bidding parties must purchase IC cards and card readers, so some slight costs are generated. If we switch system, the bidding parties can submit bids with the internet connection. Therefore, Costs will not be generated.</p>

<p>The merit of a reverse auction is that you can grasp the market value better as compared with normal bidding. However, there is no absolute correct system that exists among procurement methods. In addition to a normal electronic bidding system, I think it would be good to run reverse auctions at times if the running costs will be cheaper, and follow the market price.</p>	
<p>You are saying that you are not currently considering the introduction of reverse auctions, but do you have an estimation of how much modifications would cost to introduce them? Are you thinking of making a system that could handle reverse auctions when you carry out the overall modifications of the existing system in a few years' time? Alternatively, do you have an estimation of how much it would cost if you add modifications to the current system?</p>	<p>We have not confirmed the cost in case that we modify the existing system. We have not been able to obtain a flexible handling with repairs to the system to improve usability; hence, it is also possible that we could not get a contractor to go as far as the additional development of new functions prior to calculating the cost. Because a new system would have cheaper annual expenses than the current system, we expect cost reductions without the additional development expenses.</p>
<p>I think electronic bidding systems are good because it is a system whereby you can purchase items at the lowest price among the bids. A group of 10 institutions, including a national university in Ibaraki Prefecture, are carrying out joint procurement. A demerit of joint procurement is that it is not possible without a single company contracting for transportation when purchasing things like heavy oil. However, things with low transportation costs (e.g., liquid nitrogen, copy machines, etc.) can be purchased jointly. If you are making efforts, like this one, at cost reduction that can be managed internally, you could only produce scale merits by combining with other institutions after.</p>	
<p>Relatedly, maintenance costs Is it correct to understand that the monthly usage fees in customizing the reverse auction that you repaired the current system for use in reverse auctions would be JPY 250,000? Is it correct to understand that you could combine use of an electronic bidding system and reverse auctions if you paid JPY 250,000?</p>	<p>That is correct.</p>
<p>If the monthly usage fees in change of the existing system that you changed the current system for use in reverse auctions would be JPY 250,000, the price of about JPY 1 million annually for maintenance expenses would fall. Including other merits, such as Dutch auctions and enabling the streamlining of work, does it</p>	<p>We are thinking along the same line. The current system generates maintenance and management expenses of about JPY 4 million annually. If we switched that to the system of which we did the trial introduction and reverse auctions, we would have an annual amount of about JPY 3 million; at that time, we could</p>

<p>mean that cost effects would not be bad if it exceeds maintenance expenses of JPY 3 million?</p>	<p>expect a reduction of about JPY 1 million, and it would also be possible to implement electronic bidding and reverse auctions. However, we do not think that we can modify the current system and introduce one to implement reverse auctions at the present point.</p>
<p>Regarding to the possibility of a successful bid amount remaining at a high level, you must set an amount in advance in the case of a single-time bid. However, with the method used this time, bids can be carried out multiple times. Does it mean amounts would not be able to remain high to the extent that there would be a leeway left in the number of times you could bid?</p>	<p>That is correct. Things like presenting your first bid at a high level in anticipation of a falling amount are conceivable.</p>
<p>Regarding to the point in a reverse auction, multiple parties can absolutely submit bids, does it mean that you must make a minimum selection with certainty?</p>	<p>That is correct.</p>
<p>[Price negotiation successful bid method] The Public Accounting Act is interpreted to mean that the institution must decide the successful bidder at the same time as opening the bids. Does this interpretation apply to OIST to follow?</p>	<p>[Price negotiation successful bid method] Specifically speaking, because the university is not a corporation to which the Public Finance Act and the Public Accounting Act are applied directly, we follow the Act for Normalization of Grants and the Guideline for the Granting of Subsidies. Additionally, the Act for Normalization of Grants does not refer to the time of determination of the successful bidder.</p>
<p>If it were possible to shift the timing of determination of the successful bidder, would it not be better to negotiate with the “best candidate”? In the case of negotiating with the “best candidate” and the case of negotiating after determining the successful bidder, the incentives are completely different.</p>	<p>That is correct. Almost all of the cases subject to the trial introduction this time were ones in which only one company was expected to bid. Hence, it was thought that, in actuality, there would be virtually no difference between the successful bidder and the best candidate.</p>
<p>If there are submissions from two or more parties, the effects will differ depending on whether it is possible to shift the timing of determination of the successful bidder. If it is not possible to shift the timing, the judgment would be that it would probably be better to do it even if results were not that forthcoming and there was no significant effect on price negotiations.</p>	<p>That is correct. If there is a bid from one party, the successful bid price would be determined by only one bid if it was within the scope of the planned price. However, assuming there was competition, considering that it would draw out the expected range as it would probably have been possible to lower the price further, we thought that subsequent negotiations might not be possible.</p>
<p>Would it not depend on whether you refuse price negotiations, or respond to price negotiations based on future transactions; in that case, a slightly longer-term relationship is expected.</p>	<p>If it was a facility construction case, there are times when there would be another opportunity for a transaction. The case of research equipment, it might be a single transaction for the manufacturer.</p>

<p>The circumstances would be a little too good for you if you were buying a special-order product at a special low price. You must think about that point separately.</p>	<p>We need to ascertain in each case whether effects can be expected properly and whether we can operate the price negotiation successful bid method.</p>
<p>Do bid participants know in advance that negotiations will be carried out after the bid?</p>	<p>We provide guidance at the point of the public announcement regarding negotiations after the bid.</p>
<p>In the sense of a countermeasure for one-company bids, this is probably an issue that could be absorbed by establishing rules for negotiated contracts.</p> <p>Of course, it seems as if negotiating after a general competitive bid is difficult to accept in terms of conventional wisdom.</p>	<p>-</p>
<p>It is not the case that there is the best procurement method. I think it is important to try things considering the circumstances all times. It is important to change the contract method even if the conditions are the same.</p>	<p>-</p>

(3) Discussion of issues/problems

Opinions/comments of committee members	Secretariat's explanation, etc.
-	<p>[Improvement and reform in the procurement procedures]</p> <p>The Secretariat explained the draft policy.</p> <ul style="list-style-type: none"> - Based on the current results and issues, we will verify the results of attempted solutions and expected effects, and start the PDCA cycle from C (elicit issues and causes from procurement results). - We will state some of the efforts in the business plan for the fiscal year 2017, and diffuse them as the policy for efforts across the entire university.
<p>How is the consistency between the improvement plan policy and the business plan? Isn't it better to set the targets, the means for achieving them, and the evaluation indices easier to understand?</p>	<p>[While presenting materials] We have stated the indices in the draft business plan. We are also gathering together the matters that we have worked on continuously since the establishment of the university and raise them as the results report vis-à-vis the business plan each fiscal year.</p>
-	<p>We would like to hear your opinions on how to establish a plan in the PDCA cycle.</p>
<p>Establishing plans, setting the means for achieving them, and the evaluation indices, and then it is important to analyze and verify those indices objectively.</p> <p>First, it is important to prepare a cause-and-effect relationship (hypothesis) and then verify such relationship. In that sense, evaluation is the most important, and the results of the evaluation must reflect in the next action.</p>	-
<p>In other countries, people have a check system based on a hypothesis, and carry out verification regarding to procured items. The means of verification are various. Establishing a hypothesis is probably important.</p>	-
<p>Regarding to "ratio of contracts based on competitive bidding and other competitive methods," which is raised as an index, I think that, currently, you are at the stage of repeating a trial and error over what to do with this "ratio." If, for example, you establish a goal that this method is good for a case with such feature, you would probably need to set that as the hypothesis and search for the optimum "ratio" while comparing the probability of success against normal methods.</p> <p>Moreover, I think that the level of satisfaction among users of things purchased is the most important concerns.</p>	<p>Regarding to the former ratio, we are only showing the number of cases and amounts pertaining to competitive bidding and negotiated contracts at the present stage. We will investigate the indices from now on as reference to the opinions received this time.</p>

<p>The method of increasing the proportion of competitive contracts and reducing negotiated contracts has also been implemented at the national government level, but it has not produced better results. I think it would be best not to simply raise the figure.</p>	<p>-</p>
	<p>[Sequencing reagent] The Secretariat explained the discussion in the last committee meeting, and the problem points and subsequent interim report.</p> <ul style="list-style-type: none"> - There are limits on sales routes. - A reduction of prices because of competition is not expected. - Price negotiations with sellers are having difficulties. - Based on the advice received from Committee Member Tada, from the perspective of propriety, we are consulting with respect to the investigation of prices, looking not only within the prefecture, but also at the prices of sellers outside of the prefecture. We are currently waiting for responses from other parties.
<p>Firstly, there are the manufacturers' as Japanese importers. In Okinawa Prefecture, there are Japanese importers' capital-affiliated retailers; hence, the selling structure is doubled. You probably need to investigate, whether some kinds of profit are being generated apart from the price by putting a hold on the retailers.</p>	<p>I think we need to measure further the merits in the case of purchasing from a retailer. I would also like to include the level of satisfaction on the post-purchase reagent management and usage side in the materials for measurement.</p>
<p>Are prices cheap in other regions?</p>	<p>The delivered prices are virtually unchanged. However, it seems that they are carrying out price negotiations at their respective organizations based on purchase quantities.</p>

(4) Schedule for the next meeting and the committee member responsible for extracting cases.

The next meeting is scheduled for the period from mid-July to early August 2017; it will be held in Okinawa.

The committee member responsible for the next extraction of cases will be Committee Member Shimizu.

(Committee Member Sakihama -> Committee Member Katada -> Committee Member Tada -> Committee Member Tanaka -> Committee Member Namerikawa -> Committee Member Shimizu)