

## Application 19.3

### The Lysine Cartel

"They [customers] are not your friend. They are not my friend... You're my friend. I wanna be closer to you than I am to any customer. And all I wanna is to tell you again is let's—let's put the prices on the board. Let's all agree that's what we're gonna do then walk out of here and do it."

With these words, Archer Daniels Midland (ADM) executive Terrence Wilson exhorted his fellow conspirators in the lysine cartel to abide by their cartel agreement. Lysine is a feed additive that promotes the

growth of lean muscle in animals. From 1992 to 1995, the producers of lysine engaged in a secret conspiracy to raise its price, in violation of U.S. antitrust laws. Unbeknownst to the conspirators, one of them—ADM executive Mark Whitacre—had squealed to the U.S. Department of Justice in return for immunity from prosecution. During the resulting investigation, the FBI secretly recorded the cartel's meetings.

Figure 19.15 shows the price of lysine from January 1990 to December 1995. Prior to 1991, the lysine industry included

only a small number of firms, all of them foreign. Early in 1991, Archer Daniels Midland entered the industry with a new production facility that massively increased the industry's capacity from 390 million pounds per year to 640 million. By mid-1992, with the new plant producing at just 40 percent of capacity, lysine prices had fallen dramatically, to the point where ADM could no longer cover its variable costs. When the cartel formed in June 1992, members agreed to raise the price from its 69-cent level to over \$1. Prices rose at first, but in early 1993 adherence to the cartel began to unravel and the price began to fall.

In October 1993, cartel members reached a new agreement to fix their market shares and adopted a compensation scheme designed to eliminate the incentive to cheat on the agreement. Any firm that sold more than its allotted amount would buy lysine from firms that sold less than their allotted amounts at the cartel price they had agreed on. Under this scheme, provided that sales levels could be monitored accurately, a firm would end up worse

off by secretly cutting prices to gain market share, since it would pay more in compensation for the extra units than it received for them from buyers. After this scheme was put in place, prices rose to over a dollar and remained at that point until the cartel was broken up by an FBI raid in June 1995. According to one estimate by economist John Connor, from July 1992 to June 1995, the lysine cartel elevated prices an average of 17 percent on sales of \$460 million, bilking U.S. buyers of roughly \$78 million.<sup>12</sup>

For his part in the conspiracy, Wilson drew a two-year prison sentence and a \$350,000 fine, as did ADM's CEO Dwayne Andreas. What about the informant, Whitacre? Unfortunately for him, it was discovered that he had embezzled millions of dollars from ADM, confirming the adage that there is rarely honor among thieves. Because this second crime violated his immunity agreement, he ended up with a two-and-a-half year sentence for price fixing in addition to a nine-year sentence for embezzlement.

**Figure 19.15**

#### Prices of Lysine, January

**1990–December 1995.** The figure shows the price of lysine before, during, and shortly after the lysine price-fixing conspiracy.

