Rules, Communication and Collusion: Narrative Evidence from the Sugar Industry Case

Genesove and Mullin

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This paper describes the actual functioning of the Sugar cartel througth the Sugar Institute.

- Sugar Institute never directly fixed prices nor allocated market shares to the cartel members.
- Code of Ethics: it fixed rules of conduct. Regulated distribution and marketing, finance and all aspects of sales except the base price.
- Rich Communication through regular meetings of cartel members: any price changes are announced weeks before.

Common Rules

Business practices which makes price cuts more transparent

- Prices: posted on the refiners' bulletin boards, Price changes are announced no later than $3:00$ p.m.
- Rules that eliminates discriminatory prices: No quantity discounts, no long-term contracts, restricted credit arrangements. Restriction on downstream activities (brokerage, storage). Delivery dates within the 30 days of sales. This prohibits storage service for the consumers.

Price change announcement which encourages immediate response to price cuts.

- Price decrease has to be announced immediately. Allows other firms to immediately respond. Consumers who noticed price decrease also anticipate price cuts of other firms as well. Eliminates any temporary gain in market shares ("stealing the market") to the firm that initicated the price cut.
- Announcement of a price increase is effective only after one day.

Prior Notification

- Any changes in terms of trade needs to be notified well before its implementation. Violation of the rules need to be notified 15 days in advance
- Prior notification eliminates relatiatory lag. It also works as a coordinating device, where firms can see if other firms are following suit or not.
- Even retaliations are notified prior to action.

Punishment or Retaliation to Cheating

- Alleged cheating was always investigated, before punishment. Effort was taken to obtain evidence for cheating, and garner support among other members.
- Retaliation was restricted. Punshment matched the violation. Violation of a firm was met by similar action by other firms (price decrease by similar price decrease by other firms, Delivery rule violation was met by similar late delivery by other firms, etc).
- Theory predicts that more severe retaliation supports better cooperation by deterring cheating. Punishment should not match the violation.

- The most severe punishment, reverting to the competitive regime, was only applied when there was a massive and repeated violation of the rule. This could be because dramatic changes in regimes are detrimental to the relationship between brokers and consumers.
- market share was never the deciding factor for punisment.