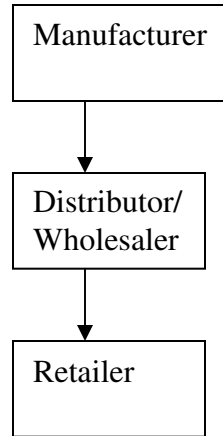
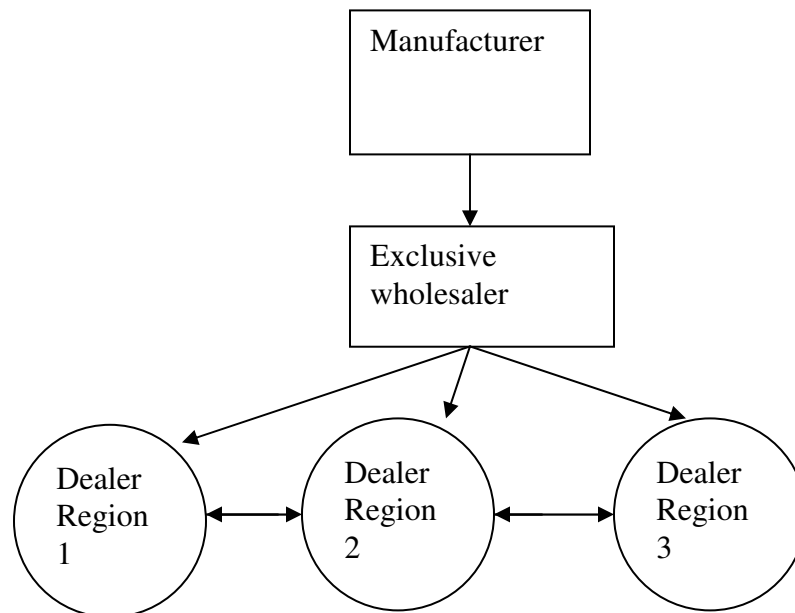


## VERTICAL RESTRAINTS

Parties in a vertical relationship: Involves parties operating at a different level of trade.



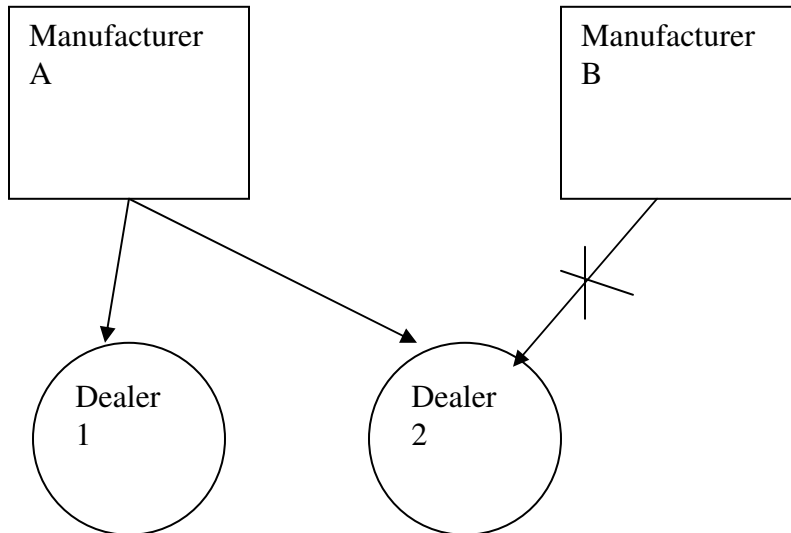
### Intrabrand Restraints



**Exclusive Distributorship:** The manufacturer has agreed to market its products exclusively through a single wholesaler, and has agreed not to appoint any other wholesaler

**Territorial Restrictions (With or Without Exclusive Distributorships):** Each dealer has agreed to concentrate its sales efforts within an assigned region, and each is prohibited from selling the wholesalers products outside that region. The wholesaler may remain free to appoint additional retailers in each region, depending upon whether it has also agreed to make each dealer an exclusive distributor.

**Interbrand Restraints**



Manufacturer B cannot sell to Dealers who have agreed to purchase solely from Manufacturer A.

Anti-competitive effects of Exclusive dealing	Pro-competitive effects of Exclusive Dealing
<ul style="list-style-type: none"> <li>Exclude or impair access of rivals to most cost-effective distribution outlets (downstream dealers), leading to higher prices.</li> <li>Limit consumer choice</li> <li>Impose costly forward vertical integration on rivals</li> </ul>	<ul style="list-style-type: none"> <li>Reduce transaction costs</li> <li>Secure dealer loyalty</li> <li>Prevent interbrand free-riding</li> </ul> <p>And in the case of output and requirements variants:</p> <ul style="list-style-type: none"> <li>Protect buyers and sellers from price fluctuations</li> <li>Ensure long term supply/customer stability</li> <li>Ensure consistent operation at efficient scale.</li> </ul>

**Section 5(2) Minimum RESALE PRICE MAINTENANCE (RPM)**

Approach: *Per se*

Pro-competitive uses	Anti-Competitive
<ul style="list-style-type: none"> <li>- Eliminate free riding</li> <li>- Protect output-enhancing dealer services</li> <li>- Safeguard quality/image</li> </ul>	<ul style="list-style-type: none"> <li>- Facilitate manufacturer cartel</li> <li>- Facilitate dealer cartel</li> <li>- Impose excess services on consumers.</li> </ul>

## **DETERMINING THE TERMS OF THE VERTICAL AGREEMENT AND HOW IT OPERATES IN PRACTICE**

1. What are the terms of the agreement?
2. What is the agreement restricting?
3. Is competition being eliminated by the agreement?
4. Is there any competition even with the agreement in place?
5. Does the agreement-
  - a. Eliminate competition through foreclosure?
  - b. Raise barriers to entry?
  - c. Facilitates price discrimination?
  - d. Results in the monopolization of another industry?
  - e. Cartelize an industry an industry through either a distributors or manufacturers cartel?
  - f. Raise rival's costs?
6. Evaluate whether the agreement has any likely competitive benefits?