maintained at the same level. If this is the case, the prohibition of RPM, or any facilitating device, will enhance efficiency. In practice, such cases are not difficult to identify. However, they are the exception rather than the rule.[31]

Second, a contentious issue is the possibility of a retailer cartel coercing a manufacturer to aid the stability of their cartel through RPM. Under this arrangement, retailers use manufacturers to co-ordinate the cartel prices at the retail level. The retailer cartel is enforced by boycotting any manufacturers which refuse to impose RPM. The effect, if the cartelization is successful, is to delay or block entry by discount stores. However, the retailer cartel hypothesis for RPM is less relevant today than historically, since discount stores are well-established in most relevant retail markets.[32]

Thus, the two cartel explanations of RPM do not appear to provide sufficient justification for the current status of RPM as *per se* illegal in most countries. The majority of cases of RPM do not fit the cartel explanations.

Third, most RPM situations appear to involve one manufacturer or a group of manufacturers acting unilaterally. However, RPM adds nothing that could not be achieved by the manufacturer when it sets the wholesale price for the product. Why would a manufacturer set a higher price and take a hit in sales at the retail level? There must be other factors than price that influence demand for the product and motivate manufacturers to resort to RPM.

There are three main explanations. First, RPM is welfare-enhancing as it encourages retailers, by eliminating the free rider problem, to provide "pre-sale service" for certain types of products. Second, RPM can increase the number of service-oriented retailers willing to carry the product and thus positively influence market demand. Third, for products where demand depends partly on whether some of the high reputation retailers carry the product, such service-intensive dealers could provide a degree of "quality certification" to the product.[33]

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[31] G. Frank Mathewson and Ralph A. Winter, *Competition Policy and Vertical Exchange*, Vol. 7 of the Royal Commission on the Economic Union and Development Prospects for Canada, Toronto: University of Toronto Press, 1985, p. 102. For a discussion of cartel instability, also see William Ehrlich and I. Prakash Sharma, "Competition Policy Convergence: The Case of Export Cartels", *Policy Staff Paper*, No. 94/3, DFAIT, Ottawa, April 1994.

[32] Frank Mathewson and Ralph Winter, "The Law and Economics of Vertical Restraints", in Frank Mathewson, Michael Trebilcock and Michael Walker, eds., *The Law and Economics of Competition Policy*, Vancouver, B.C.: The Fraser Institute, 1990, p. 110.

[33] See H. Marvel and S. McCafferty, "Resale Price Maintenance and Quality Certification", *Rand Journal of Economics*, Vol. 15, No. 3, Fall 1984: 340-59.