nonprice restraints divide generally into two categories: (a) restraints such as exclusive territories, customer restrictions and profit pass-over arrangements, which limit *intrabrand*[8] competition among dealers of a single supplier; and (b) restraints such as tying, which limit *interbrand*[9] competition by denying competing suppliers access to distribution channels or by forcing purchasers to buy products they do not want. Vertical restraints typically reduce intrabrand competition, but may increase interbrand competition.

- *Vertical relationships or vertical integration*

In thinking about competition policy concerns in vertical restraints, a comparison with *vertical integration* is often made. A vertically integrated firm would make the entire product and would also sell the good itself. In theory, vertically integrated and vertically controlled structures could emerge as an answer to the same overall production problem. Under competition law, integrated firms are legally allowed to implement almost any internal contract.

It is also well known that, in some situations, the costs of production and distribution under vertical integration may be higher due to the use of an inefficient corporate structure. The contrary view from transaction cost economics argues that transaction costs associated with coordinating and arranging for production are generally lower when goods are produced within a single firm. But, production costs are usually reduced by procuring from an outside supplier that enjoys economies of scale due to specialization. Nonetheless, competition law in many countries restricts the writing of arm's length vertical contracts by independent firms. For instance, resale price maintenance (RPM) is *per se* illegal in most countries.

Competition laws on vertical restraints may have the unintended side effect of actually encouraging formal vertical integration (e.g., through takeovers or mergers), even in situations where this form of business organization is not the most efficient one. Relationships in the distribution system should be based on who can perform the task in the least costly way.

[8] Intrabrand competition refers to competition among retailers of the same brand-name product. For example, a city that has six General Motor dealerships (and no other car dealership) will be characterized by retailers competing within the GM brand of automobiles. The intrabrand setting brings out the issues involved in vertical supplier-buyer relations.

[9] Interbrand competition takes place among retailers who sell multiple brands. For example, a city that has six General Motor dealers and four Ford dealers will be characterized by retailers who not only compete within their own brand but also with rival brand automobiles. There is interbrand competition in a stereo equipment store selling brands such as Sony, Toshiba, Sanyo, RCA and so on.