**Executive Summary**

The purpose of this Paper is: (a) to identify the implications for international business and markets of various vertical restraint practices; (b) to provide a comparative analysis of the treatment vertical business practices are accorded in the law of Canada, the U.S. and Japan; and (c) to examine some of the implications for the coordination of trade and competition policies. In particular, the Paper analyses five specific vertical restraints in detail: resale price maintenance (RPM), exclusive territorial and customer restricitions (ETCR), exclusive dealing (ED), tied sales (TS) and vertical franchising agreements (FA).

Vertical relationships refer to agreements among the manufacturer and wholesalers or retailers (i.e., distributors) in the chain running from input sourcing to production to retail marketing to consumers. The purpose of these contracts is to enable the distributors to become efficient and compete in the marketplace. A well-tuned distribution network efficiently delivers goods and services to their destination, makes the economy function better and contributes to economic well-being.

Vertical contracts can lead to efficient links among firms at various stages, which may lower production costs and improve product quality. Economic efficiency and welfare, in this case, will be enhanced. Such a result suggests that vertical restraints should not be automatically illegal under competition law.

This positive view is tempered by concern over the economic harm that vertical price and non-price restraints might have on competition. The principal concerns are that vertical restraints raise prices to consumers and can be used to facilitate horizontal collusion at either the manufacturer or dealer level. Firms in a vertical relationship can agree to terms and conditions that give them market power that can be used to extract higher profits. Vertical restraints can result in distortions in consumption and in the allocation of resources. In this view, vertical restraints should be prohibited because they reduce economic welfare.

National competition policy with regard to distribution networks can interact with trade policy through interesting channels. For example, potential entrants could bump up against an entrenched sole importer and distributor. In such a market, the monopoly price of imports is analytically similar to a tariff. Sweeping away the explicit tariffs while allowing monopoly distributors is not likely to result in genuine competition and liberalized markets. Competition policy must underpin the momentum built by a free trade regime.